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THE GOVERNMENT OF THE REPUBLIC OF YEMEN */

*/ The country presentations had been finalized prior to the unification of Yemen on 22 May 1990.

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PERMANENT MISSION OF
THE REPUBLIC OF YEMEN
GENEVA

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Geneva, 7 June 1990

The Permanent Mission of the Republic of Yemen to the United Nations and other International Organizations in Geneva presents its compliments to the Secretary-General of UNCTAD and has the honour to inform that the two country representations of Yemen should be presented in one cover under the name of "The Republic of Yemen" with an underlined footnote which says that the country representations had been finalized prior to the unity of Yemen on 22 May 1990.

The Permanent Mission of the Republic of Yemen to the United Nations and other International Organizations in Geneva avails itself of this opportunity to renew to the Secretary-General of UNCTAD the assurances of its highest consideration.

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DEMOCRATIC YEMEN

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FOREWORD

This study has been prepared for the exclusive purpose of the Second United Nations Conference on the Least Developed Countries to be held in September 1990. The aim is to assess the economic and social performance of the People's Democratic Republic of Yemen, within the framework of the Substantial New Programme of Action for the 1980s; it also attempts to establish the objectives of Democratic Yemen for the present decade, to define appropriate policies and strategies, and to estimate the financial resources which the country will need in order to implement the policies. It should be mentioned that the general objectives set out in this paper are those which have already been decided upon by the highest authorities. However, certain objectives and policies related to sectoral development have been formulated expressly for this paper and must remain tentative until they have been finalized by the competent authorities. Likewise, the quantitative targets set for the decade and the development expenditure amounts given in this study are preliminary and intended to serve only for the purposes of this study.

It is also worth noting that the competent government departments have not yet completed the final estimates in the statistical series for the latter part of the 1980s. These estimates remain subject to revision pending possible changes. By the same token, the quantitative investment and production targets for the country's fourth five-year plan (1991-1995) have not yet been determined. Consequently, in some new statistical tables it has been necessary to extrapolate data based on available official sources in order to complete the time-series needed for assessing economic performance throughout the decade and establish a tentative base for elaborating the programme for the 1990s.

It follows, therefore that the amounts given here are by no means final. As approximations they are subject to change somewhat in the light of figures submitted by the competent departments and authorities.

Abbreviations and notes

- AFESD - Arab Fund for Economic and Social Development
- CNPA - Comprehensive New Programme of Action
- CSO - Central Statistical Organization
- EGDP - Economic Gross Domestic Product = GDP minus social and administrative services and other services not considered as directly productive, such as finance real estate, business and private services.
- GNP - Gross National Product: GNP includes GDP and factor income from abroad including workers' remittances
- KFAED - Kuwait Fund for Arab Economic Development
- SNPA - Substantial New Programme of Action
- USSR - Union of Soviet Socialist Republics
- Y.D. - Yemeni dinar = 2.895 US dollars
- YSP - The Yemeni Socialist Party

Notes to tables

- negligible
- .. not available

CHAPTER 1

ECONOMIC PLANNING AND PERFORMANCE DURING THE 1980s - AN OVERVIEW

1. The People's Democratic Republic of Yemen shares many common features with other least developed countries (LDCs). After a long British colonial rule (129 years), and several years of struggle, the country emerged in 1967 poorly endowed with resources, devastated, and, with the exception of Aden, deprived of basic economic and social infrastructure. Life expectancy was very low, health conditions precarious, infant mortality and illiteracy rates were very high, while per capita income was very low.

2. In 1968, the Yemen Socialist Party took over. Shortly after, a High Council for National Planning was established. Since then planning institutions have been established; gradually the scope and size of planning machinery have grown substantially and been improved. Consequently Democratic Yemen, with its present political framework, has had two decades of reasonable success.

I. THREE-YEAR AND FIRST FIVE-YEAR PLANS

3. The first three-year plan (1971/72-73/74) was prepared with foreign technical assistance. In fact the plan was essentially an investment programme, modest in size and intended to stimulate immediate and accelerated action; its impact was felt only by the third year (1973-1974), when GDP rose to about 84 million Yemeni dinars from a former level of around Y.D. 70 million only. This plan was followed by the first five-year plan (FFYP) for the years 1974/75-1978; the latter was also prepared with foreign assistance but with more Yemeni participation.

4. The implementation of this plan was fairly successful. The initial target for total investment was Y.D. 75 million. Subsequently, due to the expanding availability of external financial resources, this target was raised gradually through regular annual revisions of the plan to around Y.D. 276 million. Actual investment expenditures during the plan period amounted to about Y.D. 198 million, more than two and half times the original target, and about 71 per cent of the revised one. Because of the delay of the second five-year plan (SFYP), FFYP was extended to the end of 1980, by which time the amount of Y.D. 317 million had been invested. Priority in the plan was given to fishing, irrigation, agriculture, animal husbandry, manufacturing and mining. Social services also received an allocation. The Soviet Union (USSR), German Democratic Republic and Kuwait were among the major country donors.

5. The "Immediate Action Programme" (IAP) of the Comprehensive New Programme of Action for the LDCs, launched by the United Nations Conference on Trade and Development (UNCTAD) at its fifth session held in Manila in May-June 1979, covers the entire period (1979-1980) of this plan. The Substantial New Programme of Action for the 1980s for the LDCs (SNPA) covers the period of the following two successive plans, namely the second and third five-year plans for economic and social development.

II. SECOND FIVE-YEAR PLAN

6. The Second Five-Year Plan (SFYP) covers the period 1981-1985. While it should have started in 1979, it was delayed (revised) until 1981 (mainly to coincide with the plans of other Arab States). The main objectives of the plan were:

- (a) To raise the living standards of the population;
- (b) To sustain economic growth by expanding the material resource and technological base of the economy, particularly in the agriculture, fisheries and manufacturing sectors;
- (c) To promote productivity and efficiency of labour;
- (d) To expand the lead role of the public sector as well as the co-operative sector;
- (e) To realize balanced sectoral and regional growth and equitable distribution of income;
- (f) To achieve a greater degree of self-sufficiency in food;
- (g) To intensify exploration, discovery and utilization of natural resources, with special emphasis on energy (oil) and mineral resources;
- (h) To improve the balance of payments and to bring about a higher degree of mobilization of internal resources for development;
- (i) To improve the economic and social infrastructure of the country.

A. Investment targets

7. The investment targets of the plan (table 1) were set at about Y.D. 559 million. Of this amount, Y.D. 509 million was to be invested by the public sector and Y.D. 50 million by the private sector. Internal financing was expected to cover 30 per cent of the overall expenditure while the rest (70 per cent) would be covered by foreign financing.

8. In the plan priority was given to industry (29 per cent of the plan's total allocation) with special emphasis (13.5 per cent) on electricity. Transport and communications came second with a total investment share of 18 per cent followed by housing (17.7 per cent), agriculture (11.9 per cent), education (5.5 per cent) and fisheries (5.3 per cent). Health received only 2.6 per cent of the plan's expenditure package, while about 10 per cent was devoted to all other services.

B. Production targets

9. In Democratic Yemen's national accounts, social services such as housing (rents and real estate), education and security services are not classed among directly productive economic activities; consequently they are not accounted for in the GDP and GNP accounts. However, for this paper, attempts have been made to fill the gap with estimates and/or information gathered from various sources.

10. Domestic product (excluding social activities) was targeted to grow from Y.D. 166.6 million in 1980 at 1980 market prices to Y.D. 277.3 million in 1985, for an annual growth rate of 10.7 per cent, with EGDP at factor cost to grow at 11 per cent per annum. The targets of the sectors were set as follows: 13.7 per cent for industry, 8.7 per cent for fisheries, 9 per cent for agriculture, 11.5 per cent for construction, 10.5 per cent for transport and communications and 11.3 per cent for trade, hotels and restaurants (see table 2).

C. Performance (1980-1985)

Investment

11. The magnitude of the second five-year plan's actual investment expenditures is shown in table 3. After 1981, the original targets have been in fact exceeded since 1982 through 1985. Total development expenditures during the whole period (1981-1985) reached about Y.D. 683 million at current prices, in comparison with the original target of Y.D. 508 million (with an implementation ratio of about 134 per cent). However, as in the first five-year plan, when the investment plan was revised upwards as external funding became more readily available (and Yemeni officials in the planning and implementing divisions became more efficient), the adjusted plan expenditures rose to Y.D. 906 million, thereby reducing the implementation to only 75.3 per cent. This ratio compares favourably with that of most other developing countries, and not only LDCs.

Production

12. GDP of the directly productive sectors at factor cost (or EGDP) rose from about Y.D. 117 million in 1980 to around Y.D. 159 million in 1985 at 1980 constant prices (in real terms) thus realizing an average growth rate of 6.3 per cent per year (table 4). This rate compares quite favourably to that of most other LDCs but drops to 5.9 per cent per year when EGDP is estimated, at 1980 market prices, after adding net excise taxes and customs. Compared with the second five-year plan targets and with the amount of expenditures invested during the plan period (1981-1985), the results are rather disappointing, as table 4 shows. Although the EGDP (at market prices) growth target of the plan was 11.8 per cent per year, the achievement in fact did not exceed 6.2 per cent with 5.6 per cent or Y.D. 62.2 million difference.

13. Several factors contributed to these disappointing results, the most important being:

(a) Plan objectives were too ambitious, given the production capacity of the country;

(b) Manpower shortages in the agricultural sector;

(c) Extensive flooding which took place in March and April 1982 when over 500 people died and about 250,000 became homeless. Agricultural areas were inundated and several factories, roads and bridges destroyed. Damage has been estimated at roughly \$1 billion;

(d) Chronic balance of payments deficits and other difficulties;

(e) Despite marked improvement at the planning level, there is still a shortage of skilled professionals at the level of project identification, assessment and implementation;

(f) An expanded share of investment (Y.D. 147.5 million or some 22 per cent of actual investment) has been absorbed by social services (such as housing, hospitals and schools) which are not directly productive;

(g) Likewise a large share of investment has been absorbed by the construction of electric power stations, one in Al-mansoura and in Hadramout respectively, and others still uncompleted, including one in Haswa; these total Y.D. 102 million or 15 per cent of total investment. Civil aviation accounted for an investment amounting to Y.D. 47.2 million or 7 per cent; it included the purchase of two aircraft (Boeing 737s). This amount exceeded by about 4.5 times the planned share of the sub-sector.

III. THIRD FIVE-YEAR PLAN (1986-1990)

14. The final draft of the third five-year plan was submitted to the Council of Ministers in January 1986, precisely the month when internal fighting broke out. The country, especially Aden City, suffered severe damage, estimated in official reports to be around \$115 million. Aden refinery, Aden Hotel and several government entities were among the badly damaged public property. The plan was delayed in order to carry out urgent reconstruction work and to re-evaluate the availability of foreign resources. As a result only annual plans for 1986 and 1987 were adopted. The ministries revised the original plan, and the final (revised) plan was approved by the Council of Ministers in March 1987. It was then ratified by the Supreme Council in September 1987.

Objectives

15. The main objectives of the plan were similar to those of the second five-year plan although more importance was attached to geological and mineral surveys, power and electricity, in addition to the completion of ongoing projects from the previous plan. Despite its modest production targets (see section following), the plan aimed at making some structural changes such as increasing the capacity, production and productivity of the directly productive sectors (agriculture, industry and fisheries). One of the plan's chief objectives was to raise the public sector contribution to domestic production from 50.2 per cent in 1985 to 56.7 per cent in 1990, while decreasing the share of the private sector from 37.2 per cent to 29.6 per cent. The active work force was to increase from 544,000 to 500,000 persons. During the expected plan period, the resources of the public budget were expected to amount to Y.D. 994 million, of which Y.D. 623 million or 62.7 per cent would be local resources and Y.D. 371 million foreign resources. The plan stated clearly that the targets were too modest to satisfy the ambitions of the Yemeni people but had been so constituted because of increasingly unfavourable circumstances.

Investment targets and implementation

16. Development expenditures of the third five year plan were set at about Y.D. 600 million (around \$US 1,700 million) more than that which had been planned, but less than that actually spent in the previous plan (1981-1986).

Local resources were expected to cover about 36 per cent of total expenditures, while external resources were to cover 64 per cent of which 58 per cent would be in the form of loans and 6 per cent as assistance (table 5 (a)).

17. About 27 per cent of the total planned expenditures were allocated to the four branches of industry (manufacturing, mining, electricity and water), 14.7 per cent for agriculture and fisheries, 22.5 per cent for transport, communication and construction, 11.1 per cent for social services and 16.8 per cent for geological and mineral surveys. The increased share of the last item from 7 per cent in the previous plan to 17 per cent in the third plan reflected the better prospects for oil exploration.

18. Implementation of the planned investment in 1986, and to some extent in the subsequent two years, was heavily influenced by events in January 1986. Development expenditures in 1986 amounted to only Y.D. 103 million, in comparison with about Y.D. 118 million originally attributed and Y.D. 67.6 million allocated in the revised plan. This leaves the ratio of implementation 87.5 per cent vis-a-vis the original plan and 61.4 per cent vis-a-vis the last revised plan. In 1987 these two ratios were 77.7 per cent and 76.7 per cent respectively. The ratio of implementation in 1988 improved vastly. It rose to 156.7 per cent vis-a-vis the original plan and 75.6 per cent in relation to the revised one. This improvement continued in 1989, as a result of a relative improvement in stability and availability of development resources. During the four years of the plan (1986-1989) total development expenditure amounted to about Y.D. 597.5 million or 114.2 per cent of the amount set out in the plan and 74 per cent of the revised figures (table 6 (a)).

Production targets and implementation

19. The production targets of the third five-year plan, 1986-1990, which appeared in November 1986, reflect the depression following the events of January that year. GDP of the directly productive sectors (or EGDP) at factor cost was envisaged to rise 9.7 per cent during the five-year period or 1.9 per cent per year on average. EGDP at 1985 market prices was expected to increase only 1 per cent per year on average as table 7 shows. Priority was given to damaged properties and reconstruction. In this spirit as the situation improved both production and investment targets have been revised upward each year: in 1986 EGDP at 1980 market prices fell from the 1985 level of Y.D. 243.5 million to around Y.D. 205 million or about 16 per cent. Although EGDP rose over the next three years as of 1988 it had not yet attained the 1985 level. It was provisionally estimated at Y.D. 263 million in 1989. If this preliminary estimate proves correct, growth between 1985 and 1989 would have attained about 8.1 per cent for the four-year period or slightly less than 2 per cent per annum on average, as table 8 shows. Taking into account the efforts of the Government of Democratic Yemen and the people's struggle to improve their living standards as well as their sustained hope and desire to better their social condition and environment, the result is quite disappointing.

IV. OVERALL ECONOMIC PERFORMANCE

The 1980s in brief

20. Table 10 has been prepared in order to facilitate comparison and measurements through the 1980s, or the period of the substantial New Programme of Action for LDCs (SNPA). This table also shows that EGDP at 1980 market prices rose from Y.D. 159 million in 1980 to about Y.D. 215 million in 1985, realizing an average growth rate of 6.2 per cent per year. After deteriorating in 1986 almost to the 1980 level, it rose gradually to a roughly estimated figure of Y.D. 233 million in 1989, for a growth rate of around 4.4 per cent per year on average. In addition to the facts already mentioned as being responsible for the failure to achieve the production targets of the second five-year plan, there have been some other factors responsible for the disappointing results of the third plan. Among these are:

(a) The damages caused by the internal fighting of January 1986: this not only includes the high cost of essential repairs and reconstruction, but also other economic and social costs. For instance Aden Oil Refinery, which suffered direct damage, had to stop operating for some time; for this reason as well as other economic and administrative reasons it has been working at about only 20 per cent of its design capacity. There was also some dislocation in many enterprises in the country. This has certainly had a negative effect on various productive forces;

(b) The devastating effects of the March-April flood in 1988: the flood affected areas in the regions of Hadramout Shabwah, Maharah, Lahej and Abyan. Beside the damage inflicted on property by the flood, agricultural crops were badly hurt;

(c) During the 1970s and early 1980s, the size of the modern and organized sectors of the economy was relatively small; consequently it was easier then to develop at a relatively faster speed than later when the scale became larger and more difficult to manage;

(d) The country suffered from acute balance of payments difficulties during the period of the third five-year plan (1980-1990).

V. PUBLIC FINANCE

21. Total public (central government) revenues, excluding foreign grants, rose from Y.D. 120 million in 1982 to an estimated amount of 154 million in 1987, of which nearly 69 million or 44.7 per cent was derived from direct and indirect taxes while around 85 million came from non-tax revenues, mainly public sector profits and revenues from public property. In 1987, direct taxes amounted to about Y.D. 15 million as against 54.5 million from indirect taxes. In addition to these amounts, the Government receives some foreign grants; these amounted to about Y.D. 19 million in 1982, but declined to about 9.4 million in 1987 (see table 13).

22. Total public expenditures, which amounted to about Y.D. 225 million in 1982, rose to about 296 million in 1984, then declined to 271 million in 1986, rising in 1987 to a level lower than that of 1984 (see table 13). Current expenditures have been steadily increasing albeit moderately during the 1980s. They amounted to Y.D. 181 million or 61.9 per cent of total government

expenditures in 1987 in comparison to Y.D. 111.6 million as development expenditures excluding the expenditures (of public entities) financed through bank loans or their own resources.

23. Public current and development expenditures have outstripped by far public revenues since the early 1970s, hence the country's economy has been run continuously on a deficit budget. As increases in current and investment expenditures were not matched by corresponding revenues - despite the Government's efforts to reduce the deficit through budget restraints - the deficit has been rising fast. It rose from about Y.D. 118 million in 1982 to Y.D. 138 million in 1986 or more than 40 per cent of the country's GDP (and 35 per cent of GNP). Since the efforts of the Government to mobilize local revenues were not successful mainly because of the low income base and the grave problems faced, the Government has been resorting to borrowing from both foreign and domestic banks. Annual foreign loans increased from about Y.D. 53 million in 1982 to Y.D. 58.2 million in 1987. Similarly, yearly domestic bank financing rose from about Y.D. 65 million in 1982 to Y.D. 85.5 million in 1985, then dropped Y.D. 71 million in 1987. Inflation is a result of such development.

24. Total external disbursed debt of Democratic Yemen increased from about \$US 1,124 million in 1983 to more than \$US 1,600 million in 1987. The most important of the multilateral sources of this debt are International Development Association (IDA), the World Bank, the Kuwait Fund for Arab Economic Development, and the Arab Fund for Economic and Social Development (AFESD). The most important bilateral source is the USSR. Up to 1986, repayments had been in order. Since 1987 there have been difficulties.

VI. GROSS DOMESTIC PRODUCT (GDP), GROSS NATIONAL PRODUCT (GNP) AND GROSS NATIONAL INCOME (GNI)

25. Estimates are given for GDP, GNP, GNI and GNP per capita, at 1985 constant prices, in table 21. They are based on the planning concept of EGDP so as to make the series consistent as well as sources, including CSO for the other components of the conceptual accounts.

26. Table 21 reveals that GDP at constant 1985 market prices had grown at an average rate of 0.7 per cent per year in the period 1985 to 1990. The relatively large increase in the industrial sector in 1990 reflects the production of newly discovered oil. During the same period, GNP, affected by the decline in remittances from Yemeni workers abroad, has been dropping. GNP per capita has declined from about Y.D. 192.2 (or \$556) in 1985 to Y.D. 164 (or \$467) in 1987 rising to an estimated Y.D. 164 only in 1989, a level lower than that of 1985.

27. These relatively low figures mentioned above reflect quite well the poverty of the country. Furthermore the downward trend of these average figures demonstrates the poverty of a large segment of society.

CHAPTER 2

SECTORAL DEVELOPMENT PROFILE

I. AGRICULTURE

28. Arable land in Democratic Yemen is estimated at about 117.8 thousand hectares (290,969 acres) or less than 1 per cent of the total area of the country. The cultivated area is about 60,166 hectares (148,558 acres) (or about 21 per cent of the arable area) of which about 37.4 thousand hectares are irrigated by wells (ground water). Clearly this area is too limited to serve a country populated by some 2.34 million people. Although the country is self-sufficient in terms of vegetables, fruits, cotton, tobacco, sesame, coffee and fodder (with some surplus for export) it depends on imports for about half of its needs for cereals and all of its needs for tea and sugar as well as considerable amounts of dairy products, meat and live animals.

29. Public capital expenditures in the agricultural sector amounted to about Y.D. 84.4 million between 1980 and 1985. They were reduced during the third five-year plan (1986-1990) to about Y.D. 63 million (table 20). This was partly due to the investment expenditures allocated to the sector for the second half of the decade (Y.D. 70 million - table 5 (b)) which were smaller than that actually spent during the first half of the decade (see table 20), and partly as a result of somewhat sluggish implementation of projects during the years immediately following 1986. The total capital expenditure in the sector during the 1980s amounted to about Y.D. 147 million.

30. The most important projects implemented or still under way during this decade are the following: irrigation of the Nisab and Wadi Mirka areas and the Wadi Beihaan agricultural project (costing Y.D. 6.2 million) aimed at irrigating 4,000 hectares of land and providing new services for small-scale farmers. Land reclamation project in Wadi Mawr was started in 1983; it involved the construction of a dam, irrigation canals, hydraulic works and pumping stations, costing overall about Y.D. 110 million. Other projects for irrigation, flood control and services for local farmers were launched in Wadi Hajr, Hadramout and the Abiyan delta. In order to control floods and save water resources further, the country needs more dams, canals and modernization of production methods.

31. Production of cereals, vegetables, potatoes, dates, and fodder has been increasing since 1980, as table 14 shows. Furthermore, the yields of cereals, tobacco and vegetables have shown some improvement.

32. The overall performance of the sector during the 1980s has been less than that which was planned or desired, but it is quite good in comparison with most developing countries. As table 10 shows, the value added of the sector rose from about Y.D. 13.6 million in 1980 to Y.D. 23.8 million in 1988 with an estimated Y.D. 25.4 million in 1989, thereby realizing an annual rate of growth of 7.2 per cent.

Constraints

33. The constraints facing the sector are quite severe. Climate generally is rigorous and hot. Most of the country consists of bare mountains, waste land and deserts. Cultivation in rain-fed areas depends on uncertain seasonal rain

and is subject to both droughts or floods. The area of pastures is large, but spread across the country at distances as far apart as 60 km from one pasture to another. Depending on rainfall they are subject to cyclical changes from viable to drought-ridden. Dry seasons often deplete the herds of cattle and sheep kept by nomads who move across the steppes seeking grazing land in the struggle for a livelihood.

II. FISHERIES

34. Democratic Yemen enjoys a coastline extending along 1,200 km of the Indian Ocean, with a rich continental shelf fishing area. The catch in 1977 reached a peak of 162,000 tons. Considerable investment was made in this sector but the result has not been encouraging. Fish and other aquatic harvest declined to about 83,000 tons in 1980, and have continued to fluctuate since; the catch reached more than 91,000 tons in 1986, then fell to about 80,000 tons in 1988 (table 15). Between 26.4 per cent and 36.4 per cent of the catch is attributable to the foreign sector (USSR); 17-19 per cent to the private sector; about 33 per cent to the co-operative sector, and the rest is mixed. The value of fish production in 1988 was placed at Y.D. 21.4 million; exports of fish and fish products in 1987 reached about Y.D. 4.84 million (\$US 13.8 million) or over 21 per cent of total exports, including petroleum and gas products or 43.6 per cent excluding these products; it thus formed the most important single component of Democratic Yemen's commodity exports. The Government, aware of the sector's value as an important source of foreign exchange and supplier of inexpensive protein for the nutrition of the population, has invested considerable capital in projects in the sector, including ports, canning and milling plants, refrigeration facilities and fishing boats.

35. The results, as may be seen, have not been too encouraging. More than Y.D. 60 million had been invested in this sector during the 1980s (table 20) but, as table 10 shows, its value added (contribution to GDP) declined from around Y.D. 11.6 million in 1980 to Y.D. 8.7 million in 1989, with a negative growth rate of minus 3.1 per cent per year. This failure may be attributed to several factors. The public sector, which together with the joint ventures, specializes in high value species for exports, was affected by unfavourable weather conditions in 1986. Two of the eleven modern fishing vessels were under repair in 1987. Similarly, the co-operative sector is not well equipped and has been facing marketing problems. The Government is aware of these problems and is trying to solve them. The sector needs more and better facilities, including fishing ports, refrigeration, modern vessels and transport facilities. Research work and well-endowed, resourceful government mechanisms are needed so as to prevent over-fishing and depletion of resources. For this purpose, a "Fisheries Manpower Development Centre" was established in late 1987, on "Labour Island" in Aden Harbour. This Centre has been planned to absorb up to 350 students. A fisheries agreement with the USSR was signed in 1987 establishing a joint fisheries company which started to operate in 1989. Work is proceeding in a satisfactory manner.

III. INDUSTRY

36. Table 10 shows that industry as a whole in Democratic Yemen had been growing at an average rate of 7.8 per cent per annum between 1980 and 1989 (7.5 per cent between 1980-1988). This compares favourably with most other sectors. However, for a clearer picture, the sector should be broken down into its main components of sub-sectors.

A. Manufacturing

37. Manufacturing in Democratic Yemen yields a variety of products, most of which serve as import-substitution, as table 16 shows. Between 1980 and 1987 the volume of production of a number of industries, including fish canning, textiles, shoes, paint and foam rubber, increased substantially. Fish canning, leather shoes, oxygen and acetylene achieved the highest rates of growth (between 11-16 per cent per year on average). Conversely, production rates in important manufacturing industries showed a decline; these include dairy products, flour, cigarettes, tiles, and oil refinery products. The most important of these, in terms of value, are foodstuffs, followed by chemicals (such as paint and plastic products), oil refining (Aden Refinery), textiles and aluminium industries, as table 17 shows.

B. Oil and oil refining

38. Democratic Yemen attaches great importance to the development of energy in general, and oil, in particular. The discovery of petroleum in commercial quantities was announced in April 1987. By 1989 the country had started to produce significant quantities. Oil has been found in the Governorate of Shabwah as well as offshore. An agreement has been signed with the Yemen Arab Republic on joint development of the oil-rich Jawf-Marib border region. After several unsuccessful attempts in Hadramout, Mukalla and Qamar Bay, through USSR, Canadian, Algerian and Czechoslovakian companies and agencies, pursued since 1975, the USSR in 1980 agreed to provide Democratic Yemen with a loan of \$56 million to finance oil exploration. In 1983, USSR Technoexport started drilling an exploration well of 3,500 metres in Shabwah Governorate. In 1987 the USSR also agreed to lend the country \$190 million for further oil and gas exploration. Technoexport, drilling in the area since 1984, made the discovery and was given a concession over an area of 35,000 square kilometres. Reserves are considered of high quality. They were estimated (unofficially) at about one billion barrels. As more discoveries are being found with more drilling this figure is believed to have been underestimated. In 1987, a six-year oil exploration and production sharing agreement was concluded with the ELF Aquitaine (France) for over 19,000 km² and another one with TOTAL (France) for a 16,000 km² area in east Shabwah. In addition, Canadian Occidental together with a Lebanese company has been given a concession in Mukalla, and had started surveying in 1988.

39. At present, oil production is about 70 to 75 thousand barrels per day (b/d) (550,000 tons per year) or 55 per cent of the country's consumption. By 1990 production was expected to reach 1.2 million tons (about 163,000 b/d), thus covering all Democratic Yemen's oil needs.

40. By 1990 the construction of oil pipelines from the field of IYAD (Shabwah) to the port of Belhaf, a length of 2,040 km was expected to be finished. Work continues on the transport of oil from the fields of IYAD West and IYAD East to the refinery of Aden. The capacity of the line is expected to be about 120,000 b/d when development work in the fields of IYAD West and Amal is complete.

41. During the period 1980 to 1985, the Government spent about Y.D. 60 million for oil and mineral exploration. However, upon the discovery of oil in 1987, since 1988 capital expenditures in this field rose to about Y.D. 65 million

that year and more than 80 million in each subsequent year (1989-1990) as table 20 shows. This is expected to continue for several years until completion of the required exploration and pipeline work.

42. Aden Refinery had an original annual capacity of 8.5 million metric tons. However, its present practical capacity is about 6.5 million tons. It works on a fee basis for foreign crude-oil producers. These include USSR, Kuwait and Iraq. Contracts in 1989 amounted to 2.6 million tons in addition to the production of 240,000 tons for domestic consumption of petroleum products. The refinery is old (built in 1954) and needs renovation, a high investment cost. Since the closure of the Suez Canal in 1967 and the consequent decline of bunkering at the port of Aden the refinery has been operating at below break-even capacity (6 million tons) thus incurring losses. This situation has been aggravated by the eroding capacity and outmoded technology of the old refinery. Harbour facilities also need some improvement in order to accommodate tankers of up to 100,000 tons. The refinery has been working on this project and is trying to increase production of oil and asphalt so as to reduce losses and maximize profits.

43. The manufacturing sub-sector as a whole is the most important one in the industrial sector. However, its share had declined from about 86.6 per cent in 1980 to 70.7 per cent in 1987. This is shown in table 19.

44. The Government controls the most important of these industries through the public sector. The production value of this sector rose from 59.6 per cent of total industrial production in 1980, to 71.2 per cent 1987, as table 18 shows. The private sector comes second in importance in manufacturing. However its share of total industrial production has been declining, as a result of past government planning. Its share fell from 26.2 per cent in 1980 to 17.7 per cent in 1987 (table 18); the mixed sector (owned partly by Government and partly by private interests) comes third, followed by the co-operative sector, which plays a minor role.

45. However, in spite of its importance in terms of production value, investment in the sub-sector has been rather modest. It amounted to about Y.D. 24 million in the first half of the 1980s but only Y.D. 14.4 million during the second half of the decade, as table 20 shows. This has been partly owing to the scarcity of capital, especially foreign capital, as well as more pressing investment needs, and partly owing to the contraction of the market and the high income tax imposed on large profits.

C. Mining and quarrying

46. Until very recently, this sector occupied only a minor role in the economy of Democratic Yemen. Its main products were salt and building materials, especially pebbles. Their value forms about only 0.5 per cent of the total industrial production. However, with the discovery of petroleum in Shabwah district in 1987, there is an upward trend in the sub-sector.

D. Electricity

47. The Government of Democratic Yemen attaches great importance to the development of electricity in the country, for social and economic reasons. Between 1980 and 1990, investment expenditures in this sector amounted to more than Y.D. 247 million (about \$600 million). Electric power produced

rose from 318 million kilowatt hours in 1980 to 610 million KWth in 1987 (table 16). Aden's Hiswah thermoelectric power station was built recently at a cost of about Y.D. 124 million (or US\$ 360 million). This station - the largest electricity - generation project in the country - was built by Technopromexport (USSR). Its total output is 125 million watts. Since electricity does not reach all areas of the country, the intention of the Government is to extend electrification in the future.

E. Water

48. Development expenditures for water-supply projects in the period 1980 to 1990 amounted to about Y.D. 72 million. Water supply between 1980 and 1990 increased from about 30 million cubic metres to about 49 million cubic metres (table 16). It is the intention of the Government to expand water supply to all areas. Several water-supply projects are underway. The Aden power project will provide about 28,000 m³ per day of desalinated sea water, expanding to 42,000 m³ per day when the full generating capacity of the electricity project (125 MW) is achieved. Project contracts were signed in 1985 to drill wells in Wadi Banah (north of Abyan) to supply water to Aden, and in Hadramout for the Seiyun regional water project. Similarly, water supply projects for Dhala, Laboos, and Mukalla have been underway and financed by AFESD, the OPEC Fund, IDA and the Kuwait Fund. Constraints in this sector are mainly the scarcity of water resources and capital as well as the rugged topography and widely dispersed human settlements.

IV. TRANSPORT AND COMMUNICATIONS

49. The achievement in terms of physical infrastructure since Democratic Yemen's independence to the present day has been considerable. Several roads have been built and/or asphalted. Several ports have been developed or improved. Aden airport has recently been modernized. The Rayyan airport (in the north) was opened in 1982. Al-Ghaidah airport on the eastern border near Oman was built. Between 1980 and 1986 the length of paved roads increased from 1,475.2 km to 2,102.4 km; unpaved roads from 5,541.5 km to 8,830 km (the total extended from 7,016.7 km to 10,932.5 km).

50. Aden port, before the closure of the Suez canal in 1967, was a very important source of income, employment and foreign exchange. It did not regain its former importance as a vital port for trade, transit and bunkering after the reopening of the canal in 1976. The decline of port activities is reflected in revenues, although it is still a significant source of income and services.

51. During the second five-year plan (1981 to 1985) about Y.D. 52 million was invested in the sector. Between 1986 and 1990, investment in transport and communications was estimated at about Y.D. 118 million. Projects during the period of the third plan (1986-1990) include mainly expansion and development of Aden port and equipping Khalaf harbour in Mukallah. The Arab Funds (of Kuwait, Saudi-Arabia and Abu Dhabi) have agreed to finance the Aden port project which is expected to cost between Y.D. 21 and 25 million. Work started towards the end of 1987 and has been proceeding well. Two berths were completed in 1988; two others were under completion in 1989-1990. Equipment is expected to be installed during 1990-1991. Work in Khalaf harbour is being completed. Communication facilities also expanded substantially during the decade 1980-1990. The contribution to GDP of the sector as a whole rose from

about Y.D. 19.5 million in 1980 to 31.4 million (at 1980 prices) in 1985, a rate of 10 per cent per year, then further to an estimated Y.D. 32.4 million in 1989, for an overall growth rate of 5.8 per cent between 1980 and 1989, as table 10 shows.

V. TRADE, HOTELS, RESTAURANTS AND TOURISM

52. The importance of this sector has been declining. Its contribution to EGDP declined from 30.6 per cent in 1975 to about 18 per cent in 1985 (table 19) then to 15 per cent in 1989 (table 10). Nevertheless the sector is still important, as trade is one of the most attractive professions in the country. Investment in the sector has been modest, with the exception of the two hotels built during the past decade in Aden. Gold-Mohair Hotel was built on the beach of Aden in 1980. The five star Aden Hotel was built in 1983. This hotel was badly damaged by the 1986 events and was rebuilt in 1988. It was expected to reopen in 1990.

53. The General Corporation for Tourism, which is responsible for the construction of the above-mentioned hotels and for promoting tourism, has been negotiating with European travel agencies trying to promote tourism in the country. At present, foreign tourism in Democratic Yemen is very limited, mostly because of the shortage of facilities, including hotels, modern restaurants (there are very few modern restaurants) beaches and appropriate services. Tourism in the country, especially winter tourism, has good potential with reasonable economic returns. The beautiful touristic sites around Hadramout and the balmy weather during winter are among the most famous touristic attractions.

VI. POPULATION, EMPLOYMENT AND SOCIAL INFRASTRUCTURE

A. Population and Labour

54. No census has been published since 1973. According to that census, the country's population was 1.59 million. Population in 1987 was estimated at 2.28 million. It increased at a rate of 2.6 per cent per year during the 1980s. Thus population was expected to have reached 2.46 million in 1990, then 3.2 million by the year 2000. Its distribution among the six Governorates of the country does not show any special concentration, with 704,000, or 30.8 per cent (the highest) in the Governorate of Hadramout, 87,000 (the least) in Al-Maharah, and 417,000 (or 18.3 per cent) in Aden. In 1987 about 1.267 million or 55.6 per cent of the total population was under the age of 20. This demographic characteristic of youth prevailing is quite common in developing countries, and it is one cause for the low work force to total population ratio. Economically active population in 1986 was estimated at 575,000; 590,000 in 1987 but was expected to have reached 621,000 in 1990. Unemployment in 1987 was estimated at 12.5 thousand or about 2.1 per cent of the labour force.

55. The share of women in total employment is small but expanding. Their share in the country's work force is estimated at about 20 per cent. The Government of Democratic Yemen has been encouraging women to work in the non-traditional sectors (outside agriculture and handicrafts) and has accorded them legal equality.

56. It is estimated that some 100,000 Yemeni people or 17 per cent of the work force are engaged in work abroad, in the Arab Gulf countries and, particularly (60 per cent), in Saudi Arabia. A considerable number of these expatriates are expected to return as a result of declining opportunities in the Gulf countries where the wages have been declining recently and have apparently dropped to about half the level of the early 1980s. Accordingly the inflow of Yemeni workers' remittances had been declining during the past few years. Migration of Yemeni workers seeking work abroad has two sides: one is advantageous and the other disadvantageous to the country. The advantage is that the remittances of the Yemeni expatriates cover a substantial portion of the country's foreign exchange needs. They have also helped towards building private houses, and thus contributed to the alleviation of the housing problem. However, on the other side, this has created an expanded demand for skilled workers in the private construction sector and thus inflated wages in the sector as a whole enticing skilled workers away from the projects being implemented by the public sector, thereby delaying implementation of these projects. Moreover, the migration of farmers and skilled agricultural workers has led to scarcity of labour in the agricultural sector. This had led the country to depend, partly, on the work of expatriates for implementation of the construction of some projects.

B. Education

57. During the second five-year plan, 1981-1985, an amount of Y.D. 28 million, or 5.5 per cent of total investment, was allocated for development expenditures in the field of education. In addition, about Y.D. 29 million, or 3.4 per cent of total capital expenditures during the third five-year plan, have been spent on education. Similarly, current expenditures in the central government's regular budget between 1982 and 1987 averaged about Y.D. 24.6 million or 15 per cent of the total current expenditures.

58. Expanding and improving education has been one of the major thrusts of Government policy since independence. Between 1980 and 1987 the number of educational establishments rose from 999 to 1,110, including a university with seven colleges. During the same period, the number of students at primary/intermediate level schools increased from about 236 thousand to 293.5 thousand although that of the secondary schools dropped from 34.3 thousand to 32.6 thousand (affected by 1986 events). Female participation at both elementary and secondary levels is about 50 per cent of male participation. Vocational and technical schools have also expanded rapidly. By 1987 their number had reached 37 schools and institutes.

59. The Government has given high priority to eradicating adult illiteracy; as a result, it has launched an illiteracy programme which is still continuing. However, the constraining factors are the problems of high rates of illiteracy among adults, the drop-out from primary and intermediate schools of school-age students, overcrowded classrooms, and shortages of teaching facilities and of qualified teachers.

C. Health

60. During the second and third five-year plans (1980 to 1990) about Y.D. 41 million was spent on health. This was in addition to current expenditures averaging Y.D. 9.8 million per year between 1982 and 1987. Since independence health conditions and life expectancy rates have improved while

child mortality has decreased. Between 1980 and 1987 the number of hospitals rose from 27 to 32, the number of hospital beds from 2,757 to 3,454, medical centres from 13 to 20 and the number of physicians from 272 to 707 (553 of whom are Yemeni). However, owing to the poverty of a large segment of the population, malnutrition and limited access to health facilities, life expectancy is 50 years and infant mortality stands at 142 per thousand. Health conditions are still unsatisfactory.

61. In spite of the improvements and Government's intensified efforts, the number of physicians per 10,000 inhabitants still is three compared to about 500 in Europe and most of the arab gulf countries, for example. Similarly, the number of hospital beds is only one for every 14,000 people, far from satisfactory. The Government, in co-operation with other countries, has been trying to improve this situation but the shortage of financial resources is a restraining force.

D. Housing

62. During the second five-year plan (1981-1985), the Government allocated about Y.D. 90 million for housing; during the third plan period (1986-1990) it was about 32.5 million. In fact, public expenditure on housing during 1980-1990 amounted to about Y.D. 99 million. In addition to these amounts, people in the private sector, especially Yemeni workers abroad, were allowed to build their own houses. Despite the considerable improvements since independence, the situation is still not satisfactory, especially in the hinterland where the majority of the people lack adequate housing and associated facilities such as potable water supply and electricity. Owing to limited resources and other pressing problems, the Government cannot provide a satisfactory solution to this situation in a short period or even a decade. In addition to the Government's efforts in this direction, the solution also depends on the general improvement of economic conditions and the consequent improvement of the well-being of the population.

VII. FOREIGN TRADE AND BALANCE OF PAYMENTS

63. Democratic Yemen exports mainly fish and sea food (earning between Y.D. 5 and 6 million), cotton, tobacco and other agricultural products and re-exports petroleum products (from Aden Refinery), in addition to the products supplied to ships at Aden port. However, exports and re-exports cover only between 19 per cent and 12 per cent of the country's total imports. In 1987 exports reached Y.D. 24 million (or about US\$ 68.5 million) they had been estimated at some Y.D. 28 million in 1988.

64. Most industrial products are imported. The trade balance has a chronic deficit (table 11), but it is held within manageable limits. Between 1980 and 1988 it ranged between Y.D. 152 million (1987) and Y.D. 274 million (1984). The service account had a surplus up to 1984. This surplus has been decreasing between 1981 and 1984. In 1985 it involved a deficit of Y.D. 10 million which grew to about Y.D. 35 million in 1988. However, the deficit of goods and services has been partly covered by unrequited transfers, the most important of which are the remittances from Yemeni workers working abroad, especially in the Arab Gulf countries. Estimates for the period 1982 to 1988 are as follows:

Year	1982	1983	1984	1985	1986	1987	1988
Yemeni Dinars (millions)	113	117	108	74	54	59	55

The amounts have been decreasing since 1984, as a result of the contracting economic activities-especially oil exports and prices - in the host countries. The decline in 1986 and there after is particularly noteworthy. It is probably due not only to a sharp decline in oil prices and revenues in the Arab Gulf countries, but also as a result of the deplorable effects of events in 1986.

65. Other important transfers of funds are private transactions, both financial and in-kind, and official grants, both of which have been declining since 1984. The current account, which has always been a deficit balance, fluctuated between Y.D. 38 million and 90 million between 1980-1987 then rose to an estimated Y.D. 132 million in 1988. Obviously, this deficit has been covered by both reverse capital flows and monetary exchange (as table 11 shows). The continuous inflow of capital contributes to the accumulated debt of the country. Similarly, the deficit is depleting the foreign reserves which are running at a low level (Y.D. 11 million in 1987 and Y.D. 3 million in 1988). As a result of this situation, the country's indebtedness has grown considerably, as has been shown in paragraphs 21 to 27 above.

CHAPTER 3

DEVELOPMENT OBJECTIVES AND POLICIES

I. POLICIES IN THE 1980s

66. Democratic Yemen devised several important policies to stimulate the economy during the 1980s. Several measures were initiated to increase exports, for instance. These included raising producer prices of cotton by about 57 per cent. Exports of fish, tobacco and salt were stimulated through pricing policy. Because of these and other measures, including the improvement of marketing practices, exports increased substantially (table 11).

67. In 1987 some steps were taken to improve the mobilization of domestic resources. As a result, non-tax revenues (mostly profits in the public sector) rose from Y.D. 71 million in 1985 to Y.D. 85 million in 1987 (table 13).

68. Similarly, the private sector received some encouragement to participate in the development efforts of the country. It was encouraged to invest in certain projects such as manufacturing, foodstuffs, textiles, clothing and tourism. Production and marketing of agricultural products and fish by the private and co-operative sectors were also encouraged through pricing policies. In the agricultural sector, some state farms were transformed into co-operatives or merged into larger state units, in order to raise productivity.

II. DEVELOPMENT OBJECTIVES AND POLICIES OF THE 1990s

69. The revised economic and social development plan for the year 1990 had been prepared but not yet approved by the high constitutional authorities when this paper was being prepared (10 January 1990). Likewise the fourth five-year plan (1991-1995) is still under preparation. Consequently, the objectives and strategies of this plan, not to mention the decade of the 1990s as a whole, have not been officially finalized. However, most of the objectives of the second and third development plans also hold true for the fourth phase because of their continuous nature. Moreover, the events, problems and constraints faced during the past years, and the experience gained during the period, have initiated certain objectives and policies which have already been adopted in principle by both the authorities and the masses; they have become subject of daily discussion in the country's media. These objectives and policies are of a general or comprehensive nature. They involve political, social and economic issues.

70. A third kind of policy includes those addressing a certain sector and its problems and constraints. Here, a hint is given concerning the major objectives and policies of the three kinds referred to above but solely for the purpose of this paper. Similarly, and for the same purpose, an extrapolation has been made of the country's economic and social production potential - targets, investment and financial needs during the 1990s based on past and present experience, available domestic material and human resources, and the general objectives and strategies outlined above.

71. Democratic Yemen achieved substantial socio-economic growth during the first half of the 1980s then modest growth during the second half of the decade. Structural constraints will inevitably continue to influence the

country's development in the future. These include topographic disadvantages, harsh climatic conditions, limited arable land, small domestic market, low income base, limited development and domestic revenues, as well as shortages of skilled and experienced professionals. Besides these structural constraints, during the period of the third plan (1986-1990), the country was subject to a severe shortage of foreign exchange in addition to the effects of damages caused by 1986 events and the floods of 1988. Furthermore failure to utilize the available capacity of certain public productive units, as well as the inadequate marketing of certain products, have contributed to the sluggish development of the period 1986-1990. The repercussions will certainly have an impact on the objectives and strategies for the 1990s.

72. Among the prime objectives for the 1990s are:

(a) A higher rate of economic growth (than that achieved during the second half of the last decade). This will be achieved through:

(i) Development of natural resources, with the following strategies:

- (a) Emphasis will be given to the exploration and exploitation of petroleum, gas and other mineral resources as well as the required infrastructure (pipelines construction and other facilities);
- (b) Land reclamation, irrigation, and water development and conservation.

(ii) Optimal utilization of available resources. This will include:

- (a) Full capacity utilization, or at least minimization of unused potential in the various production units, especially in manufacturing;
- (b) Minimization of waste and disguised unemployment;
- (c) Setting of certain incentives for both the public and private sectors;
- (d) Effective planning and investment, encouragement of savings, private investment and private initiatives;
- (e) Economy of government expenditures, elimination of waste, better management efficiency, up-grading of skills in the public as well as private sectors;
- (f) Mobilization of internal resources and increasing public revenues through efficient financial management and improved banking services;

(iii) Encouragement of exports by all possible means;

(iv) Encouragement of tourism - this includes the following:

- (a) Devoting efforts to the renovation and maintenance of existing public hotels, as these hotels had not been given the necessary maintenance during the past decade;

- (b) Upgrading of services of these hotels;
- (c) Construction of new touristic hotels and restaurants of medium-level and size;
- (d) Organization of tours to the important touristic sites in the country;
- (e) Expansion of beaches and their organization with provision of proper facilities.
- (v) Improvement of human resources including:
 - (a) Social services (education and health in particular)
 - (b) Training in the specialized institutes and on-the-job training.

(b) Priority will be given to the development of physical production sectors (i.e. yielding goods, namely Industry, Agriculture, Fisheries and Construction and in that order). The development of these sectors is essential because it is they which meet the basic needs of the population; moreover, they stimulate the activities of other sectors; they contribute to self-reliance. Investment in these sectors will include the financing of current projects carried over from the previous plan, as well as new projects in the sub-sectors of manufacturing, mining (especially petroleum) and water supply.

(c) Transport and communications, as part of the country's economic and social infrastructure, would continue to be given attention by the Government.

(d) Promotion of greater productivity - investment is very important to the process of economic and social development because it contributes directly to the expansion of production capacity. However, development does not depend solely on capital formation. Policies for the utilization of idle capacity and improvement of productivity could be as significant or sometimes more important. Therefore, it is the intention of the Government to promote productivity by all possible means.

(e) The planning machinery of the country will continue to hold an important place in development efforts. Efficiency in project identification and assessment as well as planning, in general, is very important for achieving positive development results. Erroneous planning which might dissipate the country's resources, efforts and time would be avoided.

(f) Improvement in the balance of payments through minimization of current account imbalances remains one of the major objectives of the Government during the 1990s. This will be achieved on the one hand, through increasing export production, improving the quality of products as well as marketing and export capabilities. On the other hand, a policy of minimizing imports of goods and services will be pursued by restricting them to meet the country's needs for foodstuffs, raw materials, fertilizers, insecticides, machinery and spare parts.

(g) Development of agriculture and fish production is a main objective so as to satisfy local consumption needs and increase export surplus. This will be achieved through both horizontal and vertical expansion.

(h) In the industrial sector, in order to increase output, government policy will concentrate on completing on-going projects in the field of mining, pipelines, manufacturing, electric power generation, the Aden refinery and water supply. New development projects will be pursued together with a policy of full utilization of existing capacity, giving more importance to the industries depending on local raw materials and inputs, productivity will be raised through training and incentives.

(i) Improvement of the country's infrastructure will be achieved mainly through the completion of the on-going projects including Aden Port, the port of Khalaf and the construction and asphaltting of roads. Maintenance of existing facilities will also be given due attention.

(j) Social services will continue to benefit from developmental efforts, as has been indicated above. Poverty particularly in the hinterland and urban slums - a major problem in the country - will be alleviated by raising the income level, more equitable distribution of income and by applying social justice and balanced geographical and sectoral development.

(k) A larger share of participation by the private sector in the economic development of the country will be a new objective. The leadership of the country (the Yemeni Socialist Party (SYP) and the Government) is convinced that the private sector can supplement the developmental efforts of the Government and public sector through its initiatives and flexibility. Practical steps will be taken to extend the economic freedom accorded the private sector. The council of Ministers has already issued decree No. 185 (dated 28 November 1989) leading in this direction.

(l) Like the former policy, investment by Yemeni citizens and foreigners will be encouraged further during the 1990s. The present law (No. 25 of 1981) gives investors some concessions, including exemption from import duties on imported machinery, equipment, and raw construction materials of approved new projects; similar exemption is given for two years on spare parts. Other concessions relate to income taxes, remittance of net profits and a part of salaries for foreigners. However, the law has not produced the desired results. There are several reasons for this. One is that most of the above-mentioned concessions were subject to approval by the "Supreme Investment Committee", which might give or withhold one or another of these concessions. Concessions were not automatically applicable to investors. A new draft law on investment promotion is now under discussion. This bill would give concessions to authorized investment projects automatically. The rate of exemption from income tax would thereby be raised to 50 per cent instead of 30 per cent as provided by the former law. Moreover, the incentives would continue for a period of three years instead of "a period not exceeding five years". The new bill also allows the Supreme investment Committee to grant additional concessions to certain projects. These include projects with a specific export component, or those which utilize local raw materials, produce basic foodstuffs, or which are located outside the major cities, or fall within the framework of joint ventures. The fields in which investment would be encouraged by the new draft law are the following: industry, oil, mining, agriculture, fisheries, housing, transport and communications, tourism and other economic sectors. In practice this could include all fields of economic activities.

III. OTHER OBJECTIVES AND POLICIES OF A COMPREHENSIVE POLITICAL AND SOCIO-ECONOMIC NATURE

73. The general and specific objectives and policies outlined in the section above are closely related to regular development planning. Democratic Yemen authorities (the YSP and Government) have recently adopted other objectives and policies of a comprehensive political, social and economic nature. These objectives and policies are so important that they are expected to dominate political and socio-economic events in the country in the near future and indeed for some time to come. For this reason as well as for their envisaged impact on economic development planning during the 1990s, some discussion of these policies is merited.

A. Comprehensive programme for political and economic reform

74. The objectives and directives of this programme were formulated in 1987 by the Central Committee of the Yemeni Socialist Party during its fifteenth ordinary session. In December 1989, these directives were discussed by individuals at the bottom level both inside and outside the party. The main objective of the programme is to correct distortion, deviations, and errors.

75. At the political level, the programme aims to promote democracy and to improve national unity. In the economic and administrative fields, the programme's directives call for taking the necessary steps to solve the economic problem by supporting the productive sectors and directly addressing the problems and difficulties of the public sector through the application of economic instruments. So as to achieve this, the Party requested that every ministry, institution and body concerned, itself included, prepare a project document in their own field, containing the major policy orientations and strategies needed to reform, reorganize, revitalize and develop their sector. Some of these documents have already been published. Others are under preparation. When finalized, each of these documents will be discussed and adopted by the proper governmental authority. Obviously it will be some time before all these documents are complete, approved and implemented. Major issues are expected to be addressed before minor ones and the wheel of reform has apparently started to turn.

B. Unification of Democratic Yemen and the Yemen Arab Republic

76. The citizens of Yemen Arab Republic and the People's Democratic Republic of Yemen, who are at present living in two distinct states, are in fact one people in terms of ethnological characteristics, language, culture, habits, traditions, other ethnic aspects, as well as land topography. Free movement of Yemenites between the two parts has already been decided upon and became effective at the beginning of 1990. Similarly, exchange of goods of Yemeni origin will be allowed as of the same date.

77. Unity may take some time before it comes about. It may also raise some new questions and problems. Undoubtedly, given the present momentum, it is going to stimulate action in both parts and at all levels, including the economic one. First, the internal market will be affected: demand will grow and stimulate local production and investment. Second, free movement of labour, goods and capital between the parts may enhance productivity through

better distribution of production and resources. Transport and tourism in particular are expected to expand in both parts of the country. New opportunities for investment are likely to open up in the southern part of Yemen.

78. All in all, this policy which overshadows other policies is expected to have far-reaching economic, social and political implications for the region.

CHAPTER 4

GROWTH PROSPECTS AND FINANCIAL REQUIREMENTS FOR THE 1990s

79. It bears repeating that the estimates and extrapolated figures given in the tables of this chapter are more indicative than final. This is so because available data for the second half of the 1980s are subject to revision during preparation of the fourth five-year plan and in accordance with the normal yearly revision of the third five-year plan. Both actual and estimated figures are based on the available data. Estimates for the future are based on the data representing the past and present development, on the one hand and on the objectives and policies set out in the previous chapter, on the other hand. These extrapolations are intended solely for the purpose of the Second United Nations Conference on the Least Developed Countries.

I. PROSPECTS FOR 1990

80. The economic prospects for 1990 are better than those of the previous few years. The whole economy is expected to grow at a rate of between 6 and 7 per cent compared to 1989. The gross output of physical productive sectors (industry, fisheries, agriculture and construction) is expected to grow at a slightly lower rate (6 to 7 per cent) as a result of stagnating productivity in these sectors. Most of the increase is expected to come from the industrial sector as a result of the rise in production of newly discovered oil. The value of industrial output is likely to increase from about Y.D. 121 million in 1989 to about Y.D. 144 million in 1990. Agricultural output, which had been developing at a fairly satisfactory rate during the past few years, was expected to grow at a rate of 8 to 9 per cent compared to 1989.

81. The output of other sectors, namely fisheries and construction, was not expected to increase in 1990. As a matter of fact, despite the importance of fisheries as a source of domestic food supply and export earnings, it had been stagnating during the past few years for reasons that are structural. This sector needs rehabilitation, a subject under consideration by the Government.

82. Similarly, the output of economic services (transport, communications, trade, hotels, and restaurants) was anticipated to rise in 1990 over 1989, but at a rate of 3 per cent, that is lower than that of the physical production sectors because the former are not expected to receive the same government support. As a result, EGDP was expected to have grown about 6 per cent over the past year with EGDP per capita increasing at the rate of 3.5 per cent.

83. The central Government's total expenditures in 1990 have been estimated at Y.D. 425 million to 435 million, of which around 230 million were current expenditures and 200 to 250 million capital expenditures. Total revenues for the same year are estimated at about Y.D. 160 million involving a deficit of about Y.D. 275 million. There will be considerable reliance on external sources of finance (54 to 55 per cent). The other part of the deficit is expected to be financed through loans from the Central Bank or money creation. This would be in the magnitude of Y.D. 130 million or 46 per cent of total expenditures. This matter is likely to produce some inflationary pressures which will be absorbed by government measures.

II. GROWTH PROSPECTS FOR THE DECADE: 1990 TO 2000

84. An extrapolation of EGDP, GDP, GNP by sector, and per capita GNP for 1990, 1995 and 2000 appears in table 22. In this projection, gross domestic product of the economic sectors (EGDP), at 1985 market constant prices, is expected to grow at a rate of 7.5 per cent during the first half of the 1990s and 7 per cent during the decade as a whole. In other words, EGDP is expected to double approximately between 1990 and 2000.

85. Given the Government's objectives and policies, this should be possible for the following reasons:

(a) The industrial branches of manufacturing, electricity and water are likely to grow at rates falling somewhere between those achieved during the period 1980-1985 (or 10.8 per cent) (see table 4) and those reached during the second half of the decade (1986-1990) or 6.9 per cent (table 21). This outlook is supported by policies set by the authorities aimed at expanding the sectors of electricity and water and encouraging the private sector to invest in manufacturing. There is also an intention to reform industry in the public sector.

(b) Production of crude oil in 1990 is expected to range between 550,000 tons and 1.2 million tons. It is then envisaged that it will grow to 2.5 million tons in 1995 and 3.5 million tons by the year 2000. Assuming that prices per barrel were fixed at (\$18) and that production unit costs declined with the rise of production rates - that is from 75 per cent of the production value in 1990 to 40 per cent in 1995 then down further to 35 per cent in the year 2000 - a contribution of oil production to GDP in the magnitude of, respectively, Y.D. 6 million, 40 million and 63 million would not be untoward. In the light of this expectation and the emphasis placed by the Government on oil exploration and exploitation, industry as a whole is a sector that is expected to grow at a rate of 17.5 per cent during the first half of the decade and 12.6 per cent during the second half, as table 22 shows.

(c) The growth of fisheries has been put at 5 per cent per year during the decade. In the light of the weak performance of this sector in the past, this goal would seem exaggerated. The Government intends to take the necessary steps to stimulate the fisheries sector. The private and co-operative sectors need to be encouraged further and the public sector needs to be revitalized. This is very important because, after oil revenues and apart from the remittances of Yemeni workers, this sector is the most important one in terms of providing the country with foreign exchange and thus correcting the disequilibrium in the trade balance.

(d) Agriculture is expected to grow 5 to 5.5 per cent per year according to extrapolated data. This is less than the growth rates achieved by the sector during the past 10 years because horizontal expansion is anticipated to be more difficult in future. It should not be impossible, however, for growth to continue but at this lower rate. The Government will give this sector continuous support, not only of the type and magnitude of investment during the period, but also through a price and liberalization policy which will encourage production and stimulate private initiatives.

(e) Construction rates depend very much on implementation of projects planned in the public sector, including those related to housing. Within the framework of government policy, the construction sector is also affected by activity in the private sector, particularly the building of private houses through remittances from Yemeni workers abroad. Since GNP is envisaged to grow at a rate of about 7 per cent per year, construction is expected to follow more or less at the same rate during the first half of the decade, with slower growth (5 per cent) during the second half.

(f) The contribution of trade, hotels and restaurants is expected to grow by 3 per cent per annum, on average, during the period 1990 to 1995 as no outstanding measure or activity is expected to be introduced during this period. However, taking into account the country's need to expand and modernize its hotels and restaurants, especially after unification with the Yemen Arab Republic, development of tourism between the two parts of Yemen and rise of income in both along with construction and modernization of hotels and restaurants, the sector is expected to expand and the value added to grow at a higher rate (7 per cent) in the second half of the decade.

(g) After a decline from about Y.D. 45 million in 1985 to Y.D. 36 million in 1986, the contribution to GDP of the transport and communications sector has grown slowly but steadily from Y.D. 36 million in 1986 to about Y.D. 38 million in 1990 (table 21). Since this sector, like the trade sector, has not been given special priority, its rate of growth is expected to remain at a low level of 3 per cent per annum during the first half of the decade. However, there is no doubt that the country needs to expand infrastructure in this sector. Consequently, the sector is envisaged to grow at a higher rate - 5 per cent - during the second half of the decade in order to respond to the country's needs for more facilities.

(h) Indirect tax revenues have increased slowly, from Y.D. 45.3 million in 1980 to 61.7 million in 1985 and 59 million in 1988; the figures are expected to be almost the same (or slightly lower) in 1990. If the trend continues throughout the decade, these revenues - derived mostly from customs duties on imports - are not expected to grow at the rate of 7 per cent per year, as had been projected in table 22. However, with an overall development at this rate or higher, imports are likely to increase at the same rate in order to satisfy current and development needs; consequently, import duties and other indirect taxes such as sales taxes would likely also increase at the same rate. This is a channel through which the Government can promote the mobilization of domestic resources. As this matter has been receiving a great deal of attention by the Government, revenues of this kind are expected to increase at the extrapolated pace.

(i) GDP, according to the United Nations concept, has been estimated for 1985 and 1990 then extrapolated for 1995 and 2000 by estimating and adding the value of services not included in EGDP. If the trend proves to be correct for the coming decade, then GDP at 1985 market prices would grow from about Y.D. 414 million in 1990 to Y.D. 576 million in 1995, at an annual rate of 6.8 per cent, and Y.D. 787 million in the year 2000, a rate of 6.6 per cent for the decade. The outcome, however, will depend very much on the growth of government expenditure for social services, i.e. housing, education, health and other administrative costs. If the social sector, in particular, does not receive a share of the government benefits and a budget commensurate with its importance and total development expenditures, development efforts might be adversely affected and GDP would not grow to the extent projected.

(j) Gross national product, at 1985 prices, has also been estimated for 1985 and 1990 and extrapolated for 1995 and 2000 with the inclusion of private transfers from abroad, especially remittances of Yemenites working abroad. These transfers have been decreasing since 1986. Extrapolated data show an increase at a rate of 3.2 per cent between 1990 and 1995 and 4.1 per cent for the rest of the decade. This growth is expected as a result of an envisaged improvement in economic prospects during the 1990s in the Arab Gulf countries, especially Saudi Arabia, where most Yemeni expatriates work.

(k) The population of Democratic Yemen has been growing at an annual rate of 2.6 per cent. It is estimated to reach 2.8 million in 1995 and 3.2 million in 2000. Accordingly extrapolations of per capita GNP or per capita income show about Y.D. 205 or \$595 for 1995 and Y.D. 246 or \$712 for the year 2000.

III. REQUIRED INVESTMENT

86. Investment is not the sole factor for growth, although it is an important one because it is needed in order to expand production capacity. However if the added capacity is not utilized or if the project is uneconomic, i.e. loss-making, investments could be useless or less useful than expected. Capital formation to be useful and conducive to growth should be well-chosen, well-implemented, well-managed and properly utilized. Wise policy is as important as investment funds. Taking this fact into consideration, where capital is a rare commodity, the Government of Democratic Yemen is trying to make use of all available resources, whether domestic or external. With this in mind, and based on the extrapolated production targets (table 22), the needs for capital investments in the public sector in the 1990s as extrapolated appear in table 23.

87. During the 1970s the capital to product ratio was about 4.6 to 1. By the first half of the 1980s it rose to about 22.41 to 1. It is unacceptable to take the last ratio as a yardstick for estimating investment requirements on the basis of the extrapolated targets, because during that period certain extraordinary events occurred (1986 events and 1988 floods). As a result, growth lagged. Furthermore several important projects launched during the same period have not yet reached completion. The benefits have either only started to appear (crude oil) or are expected to appear some time in the 1990s.

88. As the Government intends to minimize waste and under-utilized capacity, a ratio of 8 to 1 is assumed to be a reasonable capital to product ratio. Accordingly, the minimum investment needed in order to achieve the output projected in table 22 is estimated to be Y.D. 865 million, at 1985 prices, for the period 1991 to 1995 and Y.D. 1,050 million for the period 1996 to 2000. By way of simplification, the extrapolated amounts of required investment for the two halves of the decade have been divided and spread equally across the years, as shown in table 23. During the first half of the decade, about Y.D. 173 million (at 1985 prices) would have to be invested every year. For the second half of the decade, about Y.D. 210 million at 1985 prices, would need to be invested annually.

IV. FOREIGN DEVELOPMENT ASSISTANCE NEEDS

89. The Government, in principle, would prefer to mobilize through internal sources as much as possible (55 per cent or more) of the total projected investment. However, as currently internal revenues are limited, only a small proportion could be generated from these sources while the greatest part would have to be obtained through borrowing from the Central Bank and creation of new money. But as foreign currency is needed for obtaining not only imported capital goods and some foreign development services, but also consumer goods, revenues in local currency cannot cover import needs. Consequently, the ratio of domestic to foreign financing will have to be lowered. Thus, for this exercise the ratio is 35 per cent to 65 per cent for the first two years (1991 and 1992) then increasing gradually to 55 per cent by the year 2000. For the whole decade it is envisaged to be 46 per cent to 54 per cent, as shown in table 23. Hence the country's needs for external capital during the period 1991 to 1995 will be in the magnitude of Y.D. 527 million or about \$US 1,525 million. For the whole decade projected requirements will be about Y.D. 1,040 million or \$US 3 billion.

V. EXTERNAL SECTOR AND MINIMUM TOTAL EXTERNAL ASSISTANCE NEEDS

90. The Government has recently taken policy steps to improve the position of the external sector by encouraging exports and reducing the current account deficit. Nevertheless, the country continues to face formidable constraints in this regard. In future, the expected increase in the production and export of oil may bring some relief. As yet, however, the magnitude of the production and export of oil is still obscure, but it is not expected to rise sharply in the near future. Meanwhile, there is an urgent need for imports of both capital goods and some essential consumer goods. A summary balance-of-payments extrapolation for the years 1995 and 2000 appears in table 24.

91. Taking into account the expected increase in exports as a result of oil production (minus estimated domestic oil consumption), the trade balance is expected to involve a deficit of about Y.D. 210 million in 1995 and 271 million in the year 2000. Similarly, the current account is expected to continue incurring a deficit in the magnitude of Y.D. 143 million in 1995 and Y.D. 205 million or 55 per cent of total imports for the same year. Obviously this deficit will need to be covered by external loans. During the whole decade, these loans estimated on the basis of the extrapolated balance of payments, will be in the magnitude of Y.D. 1,630 million or at least \$US 4,727 million.

VI. PUBLIC FINANCE

92. A summary of the central Government's financial operations projected for the years 1991 to 2000 appear in table 25. Estimates are based on operations during the previous years and take into account the Government's objectives, policies and extrapolated indicators already mentioned. In line with the policy of the Government to keep the public current account expenditures within strict limits, the annual increases (at 1985 prices) have been set at Y.D. 5 million only up to the year 2000. On this basis, they are expected to rise from about Y.D. 225 million in 1990 to Y.D. 255 million in 1995 and to Y.D. 275 million in 2000. Conversely, capital expenditures remain as extrapolated in table 23. The resulting total expenditures are thus expected to increase from about Y.D. 398 million in 1990 to Y.D. 428 million in 1995 and Y.D. 485 million in 2000.

93. The overall deficit then is thus estimated to be kept more or less on the same level as 1990 (Y.D. 225 million) in accordance with the Government's policy. As table 25 shows, the deficit fluctuates between Y.D. 211 million and Y.D. 245 million. Local bank financing in 1987 amounted to Y.D. 89 million; it was estimated to be Y.D. 102 million in 1990. So as to limit borrowing from the Central Bank and the consequent creation of money, thus avoiding inflationary pressure, local bank financing has been projected to decrease gradually to Y.D. 53 million in 1995, and 25 million in the year 2000. Obviously this goal would be feasible only if external financing is made available in the magnitude projected. In this case, the external financing needed to cover the difference between the total deficit and local bank loans would increase from about Y.D. 121 million in 1990 to Y.D. 159 million in 1995 and Y.D. 205 million in the year 2000. Total external loans needed to cover the central Government's operations deficit would thus amount to Y.D. 713 million or \$US 2,064 million for the period 1991 to 1995 and Y.D. 960 million or \$US 2,779 million for the period 1996 to 2000.

VII. INTERNATIONAL CO-OPERATION AND DEMOCRATIC YEMEN'S DEVELOPMENT EFFORTS

94. The People's Democratic Republic of Yemen has had a happy history of international co-operation since its independence. During this period, it has received fruitful financial and technical assistance on both multilateral and bilateral bases. This assistance has contributed greatly to its development efforts.

95. These efforts are compatible with the objectives of the Substantial New Programme of Action launched by the United Nations Conference for the Least Developed Countries. Its second and third five-year plans have been implemented during the 1980s, a period for which the Conference had adopted certain objectives. To some extent the country has succeeded in fulfilling these objectives, especially during the second plan period. The people are looking forward to the Second United Nations Conference with the hope of receiving an objective assessment of the efforts made and further assistance and support: financial assistance is a vital factor in the country's development.

96. Co-operation with both developed and developing countries and with international and regional organizations has been fruitful and successful. The generous and kind assistance extended to Democratic Yemen by donor countries and organizations is hereby acknowledged with thanks. It is hoped that these countries and those which have not yet participated in the development efforts will render the assistance needed in future.

**Table 1. Second five-year plan, investment targets
1981-1985 (at 1980 prices)**

(Y.D. millions)

Sector/Activity	Year	Base 1980	1981	1982	1983	1984	1985	Total 1981- 1985	Percentage of total
1. Industry		19.7	32.9	30.2	28.2	27.7	28.7	147.7	29.1
Manufacturing		5.4	5.1	6.4	7.4	5.5	0.8	30.7	6.0
Mining and quarrying		4.6	7.9	4.9	4.8	5.1	5.1	27.8	5.5
Electricity		8.2	16.5	14.8	11.6	12.8	12.9	68.6	13.5
Water		1.5	3.0	4.1	4.4	4.4	4.8	20.6	4.1
2. Agriculture		16.6	15.5	12.1	10.9	11.2	10.6	60.3	11.9
3. Fisheries		3.2	8.3	6.8	5.2	4.0	2.8	27.1	5.3
4. Construction and building		0.6	1.0	1.2	1.2	1.1	1.1	5.6	1.1
5. Transport and communications		15.9	23.8	15.8	14.8	17.8	19.2	91.4	18.0
6. Trade, hotels and restaurants		3.6	5.8	5.4	5.2	1.9	2.2	20.5	4.0
<u>Social services:</u>									
7. Education		6.2	4.1	4.8	5.8	6.5	7.0	28.2	5.5
8. Health		3.0	2.8	2.6	2.7	2.7	2.5	13.3	2.6
9. Housing and real estate		3.5	17.8	16.2	19.8	18.3	18.1	90.2	17.7
10. Other services		1.6	2.2	2.7	4.2	7.1	7.5	23.7	4.7
11. Grand total		73.9	114.2	97.9	98.1	98.3	99.7	508.2	100.0

Source: Ministry of Planning. Manufacturing includes oil refining. Other services include finance and "all other government services".

Table 2. Product targets of the second economic and social plan
(1981-1985) GDP at 1980 prices

(Y.D. millions)

Sector \ Year	1980 actual	1981	1982	1983	1984	1985	Percentage annual growth 1980-1985
1. Industry	17.2	20.2	22.7	25.9	29.2	32.7	13.7
Manufacturing							
2. Agriculture	17.4	18.8	20.3	22.1	24.3	26.9	9.1
3. Fisheries	12.6	12.8	13.5	15.3	16.4	19.1	8.7
4. Construction	26.8	41.0	36.0	40.1	44.9	46.2	11.5
Physical sector 1-4	74.0	92.8	93.0	103.4	114.8	124.9	11.0
5. Transport and communications	27.6	30.4	33.6	37.0	40.7	45.4	10.5
6. Trade, hotels and restaurants	27.9	33.9	36.5	39.3	43.5	47.7	11.3
7. Other economic services	0.3	0.4	0.5	0.7	0.8	1.0	27.2
Economic product at factor cost (1-7)	129.8	157.3	163.6	180.4	199.8	219.0	11.0
8. Excise tax and customs	36.8	40.3	44.6	48.7	53.2	58.3	10.0
Economic products at market prices (1-8)	166.6	197.6	208.2	229.1	253.0	277.3	10.7
9. Housing)							
10. Education)							
11. Health)							
12. Other social services)							
Items 9-12 above)							
1-12 Grand total)							
NOT COVERED BY THE PLAN							

Source: CSO, Assessment of the revised second five-year development plan: 1981-1985, and Ministry of Planning.

**Table 3. Implementation of second five-year plan
investment expenditure (1981-1985)**

(Y.D. millions)

Investment \ Year	Base year 1980	1981	1982	1983	1984	1985	Total investment 1981-1985
Planned	73.9	114.2	97.9	98.1	98.3	99.7	508.2
Changed as adjusted	104.9	134.9	183.2	191.7	198.9	197.8	906.5
Actual	74.2	105.1	137.5	149.4	158.8	132.0	682.8
Implementation ratio							
Percentage of actual to planned expenditures	100.4	92.0	140.4	152.3	161.0	132.4	134.4
Percentage of actual to changed planned expenditures	70.7	77.9	75.0	77.9	79.8	66.7	75.3

Source: Ministry of Planning.

Table 4. Democratic Yemen's economic performance: Growth 1975-1985
Economic Gross Domestic Product (EGDP)
(1980 prices) by sectors at factor costs

(Y.D. millions)

Sector	Year			Actual		Annual growth percentage		Planned 1980-1985		Difference 1985	
	1975	1980	1985	1975	1980	1975-1980	1980-1985	1985	Annual growth percentage	Value	Percentage
1. Industry	11.2	14.4	24.1			5.1	10.8	32.7	17.8	8.6	26.3
Manufacturing	10.0										
2. Fisheries	10.4	11.6	7.8			2.2	-7.6	19.1	10.5	11.3	68.1
3. Agriculture	16.1	13.6	20.1			-3.3	8.1	26.9	14.6	6.8	28.2
4. Construction	7.4	25.1	36.5			27.7	7.8	46.2	13.0	9.7	21.0
5. Transport and communications	12.9	19.5	31.4			8.6	10.0	45.4	18.4	14.0	30.8
6. Trade, hotels and restaurants	28.5	32.4	38.5			2.6	3.5	47.7	8.0	9.2	19.3
7. Other economic services	-	0.3	0.3			-	-	1.0	24.8	0.7	70.0
8. EGDP at factor cost	86.5	116.9	158.7			6.2	6.3	219.0	13.4	60.3	27.5
9. Excise tax and customs	6.6	42.1	56.4			44.8	6.0	58.3	6.7	1.9	3.2
10. EGDP at market prices	93.0	159.0	215.1			11.3	6.2	277.3	11.8	62.2	22.4

Source: Ministry of Planning and C.S.O.

Remarks: Any difference between 1980 figures in this table and data in previous country papers and publications is attributed to readjustment by the Central Statistical Organization.

Table 5 (a). Original third five-year plan investment targets by sources of finance: 1986-1990 (at current prices) (rounded figures)

(Y.D. millions)

Source	Year	Actual 1985	Third five-year plan			1989	1990	Total 1986-1990	Percentage of total
			1986	1987	1988				
Total expenditures		132.0	117.6	147.8	123.0	103.6	90.9	582.9	100.0
A. Local sources		70.6	61.9	56.8	37.7	29.7	26.2	212.4	36.4
1. Government		48.3	47.9	47.1	30.5	25.0	21.3	171.7	29.5
2. Bank loans		17.0	5.9	4.2	3.3	2.2	2.1	17.7	3.0
3. Self-finance		5.3	8.1	5.5	4.0	2.5	2.8	23.0	4.0
B. External sources		61.3	55.9	90.9	85.2	73.9	64.8	370.5	63.6
Loans		50.4	52.9	79.2	77.5	67.6	60.5	337.7	58.0
Assistance		10.9	2.8	11.7	7.7	6.3	4.3	32.8	5.6

Source: Ministry of Planning, Third economic and social plan, 1986-1990.

Table 5 (b). Third five-year plan investment targets by sector: 1986-1990 (at 1985 prices)

(Y.D. millions)

Sector	Year	Planned 1986	1987	1988	1989	1990	1986-1990	Percentage of total
1. Industry */		50.4	63.2	58.2	45.8	43.4	261.0	44.8
Manufacturing		4.5	4.8	3.0	0.6	0.2	13.0	2.2
Mining and quarrying		13.9	20.1	22.9	21.3	24.3	102.5	17.6
Electric power generation		25.1	28.3	22.1	14.9	10.4	100.8	17.3
Water		7.0	10.0	10.2	9.0	8.5	44.7	7.7
2. Fisheries		3.6	5.1	3.4	2.3	1.3	15.7	2.7
3. Agriculture		12.6	14.6	15.4	14.5	14.2	70.9	12.2
4. Construction		0.1	0.1	0.1	0.1	0.1	0.5	-
5. Transport and communications		20.5	33.0	26.6	23.8	20.2	124.0	21.3
6. Trade, hotels and restaurants		2.1	5.1	3.1	1.5	1.0	12.7	2.2
7. Other economic services		-	-	-	-	-	-	-
8. Economic sectors (1-7)							484.8	83.2
9. Housing		10.6	6.8	4.6	5.3	5.2	32.5	5.6
10. Education		4.7	9.0	5.5	2.6	2.9	24.8	4.3
11. Health		5.6	5.4	3.0	4.3	0.7	19.0	3.3
12. Other administrative and social services		7.5	5.5	3.0	3.8	2.0	21.8	3.7
13. Total social services							98.1	16.8
Grand total (8-13)		117.6	147.8	123.0	103.6	90.9	582.9	100.0

Source: Ministry of Planning.

*/ Including oil refining.

Table 6 (a). Implementation of the third five-year plan investment expenditures 1986-1990 and 1986-1989

(Y.D. millions)

Investment	Year	1985 Base year	1986 Original	1986 Revised	1987	1988	1989 Provisional	1986-1989 Revised
Planned (Y.D. millions)		99.7	117.6 a/	148.9 b/	147.8	123.0	103.6	523.3
Revised (Y.D. millions)		-	148.9	167.6	149.7	255.0	236.9	808.3
Actual (Y.D. millions)		132	102.9	102.9	114.9	192.7	187.0	597.5
Ratio of actual to planned expenditures (%)		132.3	87.5	69.1	77.7	156.7	180.5	114.2
Ratio of actual to revised expenditures (%)		-	69.1	61.4	76.7	75.6	78.9	73.9
Local sources (Y.D. millions)		71	-	55.3	45.4	60.5	62.8	224.0
Percentage of total		54	-	53.7	39.5	36.6	33.6	39.3
Foreign sources (Y.D. millions)		61	-	57.6	69.5	104.9	124.2	346.2
Percentage of total		46	-	46.3	60.5	63.4	66.4	60.7

Source: Ministry of Planning.

a/ First revision.

b/ Second revision.

Table 6 (b). Actual investment expenditure by sector: 1986-1990

(Y.D. millions)

Sector	Year					Planned 1990 revised	1986-1990	Percentage of total
	Actual		Estimated					
	1986	1987	1988	1989				
1. Industry	52.3	58.7	104.2	112.0	133.3	460.5	59.0	
1.1 Manufacturing	2.9	4.6	2.4	1.6	2.9	14.4	1.8	
1.2 Mining and quarrying	11.3	19.5	64.3	80.7	81.8	257.6	33.2	
1.3 Electricity and energy	33.1	27.1	30.7	23.3	31.1	145.5	18.6	
1.4 Water	4.9	7.5	6.8	6.3	17.6	43.1	5.9	
2. Agriculture	11.3	14.9	13.6	9.8	13.9	63.5	7.9	
3. Fisheries	2.3	5.8	6.9	5.5	3.5	24.0	3.0	
4. Construction	0.2	0.1	0.1	0.6	2.6	3.6	0.4	
Subtotal (1-4)	66.1	78.6	124.8	127.9	153.3	550.7	70.2	
5. Economic services	15.6	18.8	24.0	40.8	33.8	133.6	17.1	
5.1 Transport and communications	14.2	17.0	20.0	36.9	28.8	116.9	15.5	
5.2 Trade, hotels and restaurants	1.4	1.8	4.6	3.9	5.0	16.4	2.1	
5.3 Other economic services	-	-	-	-	-	-	-	
6. Social services	21.2	17.5	16.1	18.3	26.5	99.4	12.7	
6.1 Housing	7.6	5.1	4.3	7.1	10.6	34.7	4.4	
6.2 Education	4.8	5.0	4.8	5.9	9.7	29.6	3.8	
6.3 Health	4.2	3.7	3.0	2.7	3.9	17.9	2.3	
6.4 Other government and social services	5.1	3.7	4.0	2.6	2.3	11.6	2.2	
7. Grand total	102.9	115.7	165.4	187.0	213.6	783.8	100.0	

Table 7. Third five-year plan production (EGDP) targets */
(EGDP at 1985 prices)

Sector	Year	1985 Base year actual	1986	1987	1988	1989	1990	Percentage growth 1985-1990	Percentage annual growth
1. Industry		28.6	28.8	31.9	37.7	41.7	45.1	57.7	9.5
2. Fisheries		11.2	11.5	11.9	12.3	12.8	13.5	20.5	3.8
3. Agriculture		28.4	29.4	31.7	33.6	35.8	37.9	33.5	6.2
4. Construction		40.5	31.8	37.4	29.8	25.8	25.3	-37.5	-9.0
5. Physical sectors (1-4)		108.7	201.5	112.9	113.4	116.1	121.8	12.1	2.3
6. Transport and communications		31.7	32.7	34.2	35.2	37.7	39.7	25.2	4.6
7. Trade, hotels and restaurants		45.8	38.8	42.7	41.8	42.7	42.6	-7.0	-1.4
8. Other economic services		0.3	0.3	0.3	0.4	0.4	0.4	33.3	5.9
9. Economic services, total (6-8)		77.8	71.2	77.3	78.1	80.8	82.7	6.3	1.2
10. EGDP at factor cost		186.5	172.7	190.2	191.5	196.9	204.5	9.7	1.9
11. Excise tax and customs		57.0	51.0	48.4	49.4	50.9	52.4	9.2	1.0
12. EGDP at market prices		243.5	223.7	238.6	240.9	247.8	256.9	5.5	1.0

Source: Ministry of Planning - Third economic and social plan.

*/ Shown in the original plan submitted in March 1987 (after the events of 1986).

Table 8. Third five-year plan production targets and implementation:
1986-1989 (EGDP at 1985 prices)

(Y.D. millions)

Sector	Year			Planned			Growth rate			Actual growth (at 1985 prices)				Percentage		
	1985	1988	1989	1985	1988	1989	1985-1988	1985-1989	1988-1989	1985	1986	1987	1988	1989 Provisional	1985-1989 Growth rate	Planned actual charges percentage
1. Industry	28.6	37.7	41.7	9.6	9.6	9.9	9.6	9.9		28.6	25.6	26.5	29.2	32.2	3.0	
2. Fisheries	11.2	12.4	12.8	4.5	4.5	3.4	4.5	3.4		11.2	11.3	10.9	11.0	12.3	2.4	
3. Agriculture	28.4	33.6	35.8	5.8	5.8	3.9	5.8	3.9		28.4	29.2	32.5	33.5	35.8	6.0	
4. Construction	40.5	29.8	25.8	-9.7	-9.7	-10.7	-9.7	-10.7		40.5	28.4	28.5	46.7	54.0	7.5	
5. Transport and communications	31.7	35.9	37.7	4.2	4.2	4.4	4.2	4.4		31.7	27.4	31.3	31.5	32.8	0.9	
6. Trade, hotels and restaurants	45.8	41.8	42.7	-3.0	-3.0	-1.7	-3.0	-1.7		45.8	36.1	37.8	40.2	41.8	-2.2	
7. Other economic services	0.3	0.4	0.4	-	-	-	-	-		0.3	0.2	0.3	0.3	0.3	-	
8. EGDP at factor cost	186.5	191.5	196.9	0.9	0.9	1.4	0.9	1.4		186.5	158.2	167.7	192.4	209.2	2.9	
9. Excise tax and customs	57.0	49.4	50.9	-4.6	-4.6	-2.8	-4.6	-2.8		57.0	46.7	45.7	47.4	54.0	-1.3	
10. EGDP at market prices	243.5	240.9	247.8	-	-	0.4	-	0.4		243.5	204.9	213.4	239.8	263.2	1.9	

Sources: Ministry of Planning and CSO.

1989 figures have been deduced by multiplying the growth rates at 1988 prices by the figures of 1988 at 1985 prices.
1989 figures are provisional and hence speculative.

Table 9. Ratios of 1985 prices to 1980 prices by sector, derived as deflators of GDP (values in 1985 prices)

(Values in Y.D. millions)

Sector	Year	GDP values at 1980 prices in 1985	GDP values at 1985 prices in 1985	Deflator (2) ÷ (1)
1. Industry		24.1	27.3	1.133
2. Fisheries		7.8	11.0	1.410
3. Agriculture		20.1	28.4	1.413
4. Construction		36.5	40.5	1.110
5. Transport and communications		31.4	31.8	1.013
6. Trade, hotels and restaurants		38.5	45.8	1.190
7. Other economic services		0.3	0.3	1.000
8. Excise and customs		56.4	55.9	0.921
9. Total		215.1	241.5	1.123
10. Social services		81.0	91.0	1.123
11. Other services		18.6	20.9	1.123
12. Amortization		19.4	21.8	1.123
13. GDP at market prices		334.1	375.2	1.123

Source: Derived from the Democratic Yemen, Ministry of Planning. Evaluation of the 1987 Plan (Third five-year plan 1986-1990) and Statistical Yearbook.

Table 10.. Democratic Yemen economic performance - Growth during the 1980s (EGDP at 1980 prices)

(Y.D. millions)

Sector	Year	EGDP 1980	(Y. D. millions) 1985	Annual growth rate 1980-1985 percentage	1986	1987	1988	1989 Provisional	Annual growth rate 1980-1989 percentage
1. Industry		14.4	24.1	10.8	22.6	24.1	25.8	28.4	7.8
2. Fisheries		11.6	7.8	-7.6	8.0	7.7	7.8	8.7	-3.1
3. Agriculture		13.6	20.1	8.1	20.7	23.0	23.8	25.4	7.2
4. Construction		25.1	36.5	7.8	25.6	25.7	42.1	48.6	7.6
5. Transport and communications		19.5	31.4	10.0	27.0	29.7	31.1	32.4	5.8
6. Trade, hotels and restaurants		32.4	38.5	3.0	30.1	30.1	33.8	35.1	0.9
7. Other economic services		0.3	0.3	-	0.2	0.2	0.3	0.3	-
8. EGDP at factor cost		116.9	158.7	6.3	134.4	140.5	164.7	178.9	4.8
9. Excise tax and customs		42.1	56.4	6.0	46.7	33.2	47.8	54.5	2.9
10. EGDP at market prices		159.0	215.1	6.2	160.9	173.7	212.5	233.4	4.4
		1	2	3	4	5	6	7	8

Sources: Central Statistics Organization (CSO) and Ministry of Planning

1986-1989 figures are converted from values at 1985 prices to values at 1980 prices by dividing them using the inflation ratio derived in table 9.

Table 11. Democratic Yemen's balance of payments summary 1980-1988

Payments	Year	1980	1981	1982	1983	1984	1985	1986	1987	1988 (Provisional)
Exports and re-exports (FOB)		21	17	13	14	11	15	10	24	28
Imports (CIF) -		-231	-349	-268	-265	-285	-242	-173	-176	-231
A. Trade balance		-210	-232	-255	-251	-274	-227	-163	-152	-203
B. Services (net)		17	20	11	2	1	-10	-10	-15	-35
C. Unrequited transfers (net)		130	162	206	183	183	158	112	122	106
D=										
(A+B+C) Current Account		-64	-50	-38	-66	-90	-79	-61	-45	-132
Capital Movement										
Loans, net		38	71	60	67	48	38	44	51	98
(Repayments)		-3	-2	-4	-3	-4	-6	-6	-7	-8
Other Capital		-	-	-1	20	2	-11	9	-2	-3
E. Capital account		38	71	59	87	50	27	53	49	95
F. Errors and omissions */		24	-13	-23	-23	17	23	-5	18	13
G. Monetary movements (increase in assets -)		2	-8	2	2	23	29	13	-22	24
(Foreign exchange reserve)		(-6)	(-9)	(-8)	(4)	(11)	(16)	(7)	(11)	(3)

Source: Yemen Central Bank.

*/ Net errors and omissions are recalculated as residue and include counterpart to valuation changes.

Table 12. Democratic Yemen's external public debt, 1983-1987

(\$US millions - rounded figures)

Sources	1983		1984		1985		1986		1987	
	Year		Year		Year		Year		Year	
	Disbursed	Total	Disbursed	Total	Disbursed	Total	Disbursed	Total	Disbursed	Total
1. Multilateral	288	443	332	528	373	634	420	645	441	685
2. Bilateral	688	1 141	793	1 189	903	1 609	1 036	1 615	1 114	1 884
Total (1 + 2)	876	1 584	1 125	1 716	1 276	2 243	1 456	2 260	1 555	2 569
Repayments	31	31	44	44	64	64	82	82	-	-
Debt outstanding	949	1 553	1 081	1 673	1 212	2 179	1 374	2 179	-	-
3. Obligations to IMF	45	45	40	40	37	37	35	25	18	18
4. Arab Monetary Fund	63	63	67	67	48	48	15	15	8	8
5. Other	72	72	81	81	106	106	114	114	116	116
Total External Debt	1 124	1 732	1 269	1 860	1 403	2 370	1 928	2 332	-	-

Sources: IMF (IFS) and Bank of Yemen.

Table 13. Democratic Yemen Summary of Central Government Operations (1982-1989)

(in Y.D. millions - rounded figures)

	Actual						Estimated budget		
	1982	1983	1984	1985	1986	1987	1988	1989	
Revenues + Grants	140	143	161	157	142	163	-	-	
Revenues	121	136	151	146	139	154	134	147	
Tax revenues	90	99	88	75	72	69	62	69	
Non-tax revenues	31	37	63	71	67	85	-	-	
Foreign grants	19	7	10	11	3	9	-	-	
Total expenditures	-225	-281	-296	-286	-271	-293	-398	-456	
Current expenditures	-138	-151	-165	-176	-175	-181	-205.5	-219	
Development expenditures	-121	-130	-131	-110	-96	-112	-193	-237	
Budget deficit (-)	-119	-138	-135	-129	-129	-129	-126	-128	
Statistical discrepancy	1	7	20	-3	-9	-	-	-	
Overall deficit (-)	-118	-131	-115	-132	-138	-129	-126	-128	
Foreign borrowing (net)	53	65	48	46	56	58	130	170	
Domestic banks financing	65	66	68	86	82	71	-	-	

Sources: Ministry of Finance, Ministry of Planning, Bank of Yemen and IMF.

1. Includes Martyrs' Fund.
2. Includes profits of public entities earmarked for development and contributions, from employees for Martyrs' Fund and for development.
3. Excludes repayment of principal to foreign creditors, includes expenditure of Martyrs' Fund.
4. Excludes expenditures of public entities financed through bank borrowing and their own resources.
5. Actual and estimated data from balance-of-payments data, excluding Trust Fund and AMF loans, which are included in the monetary data.
6. Actual and estimated data from monetary statistics.

Table 14. Agricultural production and yields of main crops (1980-1987)
Production in 1 000 tons and yield in tons per acre (Acre = 0.405 hectares)

	1980		1985		1986		1987	
	Production	Yield	Production	Yield	Production	Yield	Production	Yield
Wheat	7.8	0.60	10.0	0.61	10.5	0.71	10.6	0.70
Sorghum and millet	16.6	0.35	14.1	0.30	20.0	0.45	30.0	0.35
Cotton (seeded)	4.6	0.29	2.0	0.29	3.9	0.3	2.4	0.25
Tobacco	0.6	0.97	0.75	1.22	0.7	0.84	0.54	1.19
Sesame	1.5	0.16	1.9	0.21	1.0	0.14	1.4	0.12
Vegetables - melons	30.2	3.13	74.9	3.56	43.5	3.53	47.8	3.86
Potatoes	5.0	4.13	7.5	4.20	2.8	2.77	9.0	3.48
Dates	7.9	0.68	18.0	1.28	17.4	1.27	25.5	1.08
Bananas	12.5	6.55	9.2	5.90	10.6	6.09	11.1	6.68
Coffee	0.9	0.59	0.9	0.61	0.9	0.61	0.9	0.61
Oats	1.0	-	1.2	-	1.0	-	1.0	-
Fodder	134.7	4.87	215.2	6.49	257.6	5.74	261.2	5.23

Source: CSO Statistical Year Book, 1988, Table 1/7 p. 128.

Table 15. Fisheries: Quantity and value of fish and aquatic catch by sector (1980-1988)

(value in Y.D. millions, quantity in 1,000 tons)

Sector Year	Total		Foreign		Private		Mixed		Public		Co-operative	
	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity
1980 a/	17.5	82.8	6.6	21.9	3.0	15.0	2.9	5.4	3.0	12.4	1.9	28.1
1985 a/	14.5	85.1	2.5	33.3	3.0	15.0	2.6	3.6	4.4	8.9	1.9	24.3
1986 b/	21.2	91.4	5.4	43.5	3.8	15.0	3.2	5.2	4.7	7.9	4.2	19.8
1987	20.2	89.5	4.4	35.9	3.8	15.0	2.1	4.4	4.2	7.2	5.7	27.0
1988 c/	21.4	80.6	4.4	29.3	3.8	15.0	1.9	2.2	4.6	6.0	3.7	28.1
1989 c/	24.0	-	4.1	-	3.8	-	2.7	-	5.7	-	7.7	-

Remarks: a/ Data for 1980, 1985 in 1980 prices

b/ Data for 1986 in 1985 prices

c/ Data for 1988-1989 in current prices (1989 planned figures)

Source: CSO, Statistical Year Book 1988, and Ministry of Planning (4th year, third five-year plan).

Table 16. Production quantities by selected important industries (1980-1987)

Indicators	Year	Unit	1980	1985	1986	1987	1989	1980-1987 Average growth ratio (%)
I. Manufacturing								
Dairy products		million litres	4.7	4.8	3.6	4.4		-3.6
Fish canning		million cans	3.3	8.6	7.6	8.8		15.0
Flour		thousand tons	31.7	32.4	34.3	30.7		-0.5
Cigarettes		million pieces	1 248	1 467	1 147	1 193		-0.6
Cotton textiles		million metres	1.8	2.6	2.5	2.6		5.4
Leather shoes		thousand pairs	94	112	171	239		14.3
Matches		thousand brasses	340	516	554	422		3.1
Paint		thousands litres	1 516	2 560	1 765	1 756		2.1
Foam rubber		tons	619	797	669	1 023		7.4
Aluminium utensils		tons	400	400	300	400		-
Tiles		million pieces	1.2	1.0	0.9	0.7		-7.4
Gas oil		thousand tons	425	161	120	235		-8.1
Heavy oil (Mazout)		thousand tons	1 136	1 249	1 113	572		-9.3
Diesel		thousand tons	1 045	773	801	29.4		-40.0
Oxygen		thousand cubic metres	32	54	54	93		16.5
Acetylene		tons	13	27	17	27		11.0
Liquid batteries		1000 pieces	13	14	13	15		2.0
II. Extraction Industries								
Salt		thousand tons	15	67	40	56		20.7
Pebbles		thousand m ³	-	306	200	359	500	-
Crude oil		thousand tons						-
III. Electric power								
		millions KW thermal	318	466	559	610		9.8
IV. Water								
		m ³	30	47	48	49		7.3

Table 17. Value of industrial production by main industries (1980-1987)
(Y.D. millions)

Branch	1980		1985		1986		1987	
	value	percentage of total	value	percentage of total	value	percentage of total	value	percentage of total
Manufacturing	51.6	86.6	69.7		63.4		70.7	70.2
Foodstuffs	12.7		19.5		18.0		18.1	
Textiles, clothing and leather	4.5		4.6		5.2		5.1	
Wood and wood products	0.3		2.0		2.0		2.4	
Paper, printing and publishing	1.7		2.1		2.0		2.0	
Chemicals	5.5		11.1		9.6		12.0	
Building materials	0.5		2.7		1.5		2.9	
Aluminium products	3.7		5.0		4.2		4.5	
Oil refining	8.6		7.5		5.7		8.4	
Other industries	14.1		15.2		15.2		15.3	
Extraction industries */	0.12		0.7		0.5		0.6	0.6
Crude oil	-		-		-		-	
Electricity generation	6.5	10.9	20.2		26.3		23.8	23.6
Water supply	1.4	2.4	4.3		4.9		5.6	5.6
Grand total	59.6	100.0	99.9		95.1		100.7	100.0

Source: CSO, Yearbook, 1988.

*/ Excluding petroleum for which production started in 1988

- production is nil or unimportant.

**Table 18. Value of industrial production by ownership sector,
(1980-1987) (rounded figures)**

(Y.D. millions)

Sector \ Year	1980		1985	1986	1987	
	Value	percentage	Value	Value	Value	percentage
Public	35.5	59.6	67.6	67.2	71.6	71.2
Mixed	8.0	13.4	12.1	9.4	10.3	10.2
Co-operative	0.45	0.8	2.2	0.9	0.9	0.9
Private	15.62	26.2	18.0	17.7	17.8	17.7
Total	59.57	100.0	99.9	95.2	100.6	100.0

Source: CSO, Yearbook, 1988.

Note: Co-operatives were transferred to the public sector in 1986.

Table 19. Democratic Yemen's planned and actual structure of EGD by sector
(EGDP sector values and percentages of total EGD)

(Value in Y.D. millions at current prices)

Sector Year		Actual						Planned		Difference %
		1975		1980		1985		1985		Between plan and real
		EGDP	% of total	EGDP	% of total	EGDP	% of total	GDP	%	
1.	Industry (Manufacturing)	11.2	12.0	14.4	9.1	24.1	11.2	32.7	11.8	-0.6
2.	Fisheries	10.4	11.2	11.6	7.3	7.8	3.6	19.1	6.9	-3.3
3.	Agriculture	16.1	17.3	13.6	8.5	20.1	9.3	26.9	9.7	-0.4
4.	Construction	7.4	8.0	25.1	15.8	36.5	17.0	46.2	16.7	+0.3
5.	Transport and communications	12.9	13.9	19.5	12.3	31.4	14.6	45.4	16.4	-1.8
6.	Trade, hotels and restaurants	28.5	30.6	32.4	20.4	38.5	17.9	47.7	17.2	+0.7
7.	Other economic services	-	-	0.3	-	0.3	-	1.0	-	-
8.	EGDP at factor cost	86.5	92.9	116.9	73.5	158.7	73.8	219.0	79.0	-5.2
9.	Excise tax and customs	6.6	7.1	42.1	26.5	56.4	26.2	58.3	21.0	+5.2
10.	EGDP at market prices	93.1	100.0	159.0	100.0	215.1	100.0	277.3	100.0	-

Table 20. Actual capital expenditures by sector: 1981-1990
(Y.D. millions)

Sector	Year	1980-85	1986	1987	1988	Estimate 1989	Planned 1990 revised	1986-90	1981-90
1. Total industry		214.2	52.2	58.7	104.2	112.0	133.3	460.5	674.6
Manufacturing		24.2	2.9	4.6	2.4	1.6	2.9	14.4	38.2
Oil and minerals		60.0	11.3	19.5	64.3	80.7	81.8	257.6	317.6
Electric power		102.0	33.1	27.1	30.7	23.3	31.1	145.3	247.3
Water		28.5	4.9	7.5	6.8	6.4	17.6	43.2	71.7
2. Fisheries		37.4	2.3	5.8	6.9	5.5	3.5	74.0	61.4
3. Agriculture		84.4	11.3	14.9	13.6	9.8	13.9	63.5	147.9
4. Construction		13.2	0.2	-	0.1	0.6	2.1	3.0	16.8
5. Sub-total (1-4)		349.2	66.0	79.4	124.8	127.9	152.8	551.0	900.1
6. Transport and communications		152.5	14.3	17.0	20.0	36.9	28.8	117.5	269.5
7. Trade, hotels and restaurants		33.6	1.3	1.8	4.6	3.9	5.0	16.4	50.0
8. Total of above (1-7)		535.3	81.7	98.2	149.5	168.7	186.6	684.7	1 220.2
9. Social (Government) Services		147.5	21.2	17.5	16.0	18.2	26.5	99.4	246.9
Housing		64.6	7.6	5.1	4.3	7.1	10.6	34.7	99.3
Education		27.8	4.3	5.0	4.7	5.9	9.7	29.6	57.4
Health		24.2	4.2	3.7	3.0	2.7	3.9	17.5	41.7
Other services		30.9	5.1	3.7	4.0	2.5	2.3	17.6	48.5
10. Grand total		662.8	102.9	115.7	165.4	187.0	213.1	784.1	1 467.1

Table 21. Democratic Yemen's GDP, GNP and Gross National Income (at constant 1985 prices (in YD millions) and per capita in dinars)

Sector	Year	1985	1986	1987	1988	1989	1990	1985-1990 Growth rate %
1. Industry		28.6	25.6	26.5	29.2	32.2	40.0 */	6.9
2. Fisheries		11.2	11.3	10.9	11.0	11.7	11.3	-
3. Agriculture		28.4	29.2	32.5	33.5	35.8	39.0	6.5
4. Construction		40.5	28.4	28.5	36.0	40.0	41.0	0.2
5. Trade, hotels and restaurants		31.7	27.4	31.3	31.5	32.8	34.5	1.7
6. Transport and communications		45.8	36.1	37.8	37.0	37.0	38.0	-
7. Other economic services		0.3	0.2	0.3	0.3	0.3	0.3	-
8. EGD at factor cost		186.5	158.2	167.7	178.5	189.8	204.1	1.8
9. Net indirect taxes		57.0	46.7	45.7	47.4	45.0	47.0	-
10. EGD at market prices		243.5	204.9	213.4	225.9	234.8	251.1	0.6
11. Business and other services		2.8	2.8	2.8	2.9	2.9	3.0	-
12. Government services		91.0	90.9	98.6	100.0	100.0	100.0	1.9
13. GDP at market prices		342.3	298.6	314.8	328.8	337.7	354.1	0.7
14. Workers' transfers		73.7	53.7	58.8	55.0	55.0	60.0	-
15. GNP		416.0	352.3	373.6	383.8	392.7	414.1	-
16. Population (millions)		2.164	2.220	2.278	2.337	2.398	2.46	2.6
Per capita GNP (YD)		192.2	158.7	164.0	168.5	163.8	168.3	minus (-)
Other transfers and grants		84.7	53.8	61.8	50.6	50.0	50.0	-
17. Gross national income		500.7	406.1	435.4	448.3	442.7	464.1	-

Sources: Items 1-10 from table 8 up to 1989, items 11-12 from CSO up to 1987, items 14 and 16 from IMF up to 1987; the rest is an estimation.

*/ The large increase estimated is due to the new production of crude oil.

Table 22. Extrapolation of EGDP, GDP and GNP by sectors, 1990, 1995 and 2000 (at 1985 prices)

(Y.D. millions)

Sector \ Year	1985	1990	1995	2000	Growth rate per year %	
	Actual	Estimated	Extrapolated		1990-1995	1990-2000
1. Industry	28.6	40.0	89.1	131.2	17.5	12.6
Manufacturing	24.8	28.8	40.8	57.8	7.2	7.2
Oil mining	0.1	6.0	40.0	63.0	46.1	26.5
Electricity	2.8	4.4	6.2	8.8	7.2	7.2
Water	0.5	0.8	1.1	1.6	7.2	7.2
2. Fisheries	11.2	11.3	14.4	18.4	5.0	5.0
3. Agriculture	28.4	39.0	49.8	63.5	5.0	5.5
4. Construction	40.5	41.0	57.5	73.4	7.2	5.0
5. Sub-total (1-4)	108.7	131.3	209.8	286.5	9.8	8.1
6. Trade, hotels and restaurants	31.7	34.5	40.0	56.1	3.0	7.0
7. Transport and communications	45.8	38.0	44.0	56.2	3.0	5.0
8. Other economic services	0.3	0.3	0.4	0.5	6.0	5.0
9. Total of above (1-8)	186.5	204.1	294.2	399.3	7.6	6.9
10. Net non-direct taxes	57.0	47.0	65.9	92.4	7.0	7.0
11. EGDP at market prices	243.2	251.1	360.1	491.7	7.5	7.0
12. Business and other services	2.8	3.0	4.0	5.6	5.9	7.0
13. Government services	91.0	100.0	141.6	200.0	7.2	7.2
14. GDP at market prices	342.3	354.1	505.7	697.3	7.4	7.0
15. Private transfers	73.7	60.0	70.2	89.6	3.2	4.1
16. GNP at market prices	416.0	414.1	575.9	786.9	6.8	6.6
17. Population (millions)	2.164	2.46	2.8	3.2	2.6	2.6
18. Per capita income (YD)	192.2	168.3	205.1	24.6	4.1	3.9
19. Per capita income \$US	546.4	487	595.5	712	"	"

Sources: Table 21. The 1985 figures for manufacturing, mining, electricity and water are rough estimates. Oil production is assumed to quadruple from 1990 to 1995; after 1995 it is assumed to remain around 3.5 million tons.

Table 23. Extrapolation of investment needs for the 1990s

(Y.D. millions)

Year	1988	1991	1992	1993	1994	1995	1991-1995	1996	1997	1998	1999	2000	1996-2000	1991-2000
	Total						Total						Total	Grand total
Average annual investment	165	173	173	173	173	173	865	210	210	210	210	210	1 050	1 915
Internal financing	61	61	61	69	69	78	338	95	105	105	116	116	537	875
Percentage	37	35	35	40	40	45	39	45	50	50	55	55	51	46
External financing	104	112	112	104	104	95	527	115	105	105	94	94	513	1 040
Percentage	63	65	65	60	60	55	61	55	50	50	45	45	49	54

Table 24. Extrapolation of Democratic Yemen's balance-of-payments summary: 1990 to 2000
(Y.D. millions)

Payments	Year	1985	1986	1987	1988	1990	1995	2000
			Actual		Provisional	Estimate d/	Extrapolation	Extrapolation c/
Exports and re-exports		15	10	24	28	34	84	104
(Crude oil exports) a/		..	..	..	..	..	(41)	(59)
Imports (-)		-242	-173	-176	-231	-210	-294	-375
A. Trade balance		-227	-163	-152	-203	-176	-210	-271
B. Services (net)		-10	-10	-15	-35	-25	-33	-44
C. Private transfers b/		140	97	100	83	60	70	90
D. Official transfers		11	11	17	18	20	30	20
E. Current account (A-D)		-86	-65	-50	-137	-121	-143	-205
(E) as percentage of imports		35.5	37.6	28.4	59.3	57.6	48.6	54.7
Capital loans needed (net)		86	65	50	137	121	143	205
Monetary movement c/		..	..	..	..	..	..	..

- a/ Crude oil is assumed to be exported after satisfying local needs at 18 dollars per barrel.
b/ Transfers in kind are disregarded.
c/ Monetary reserves are assumed to be constant.
d/ Exports estimates for 1990 include re-export of oil which might not increase in the future at the extrapolated rate.

YEMEN ARAB REPUBLIC
Office of the Prime Minister
Central Planning Authority

Country presentation by the Yemen Arab Republic
submitted to the Second United Nations Conference
on the Least Developed Countries

I. Summary

The Yemen Arab Republic is pleased to be participating in the Second Conference on the Least Developed Countries, since it is a country which has suffered from economic, social and cultural backwardness inherited from past monarchic times. Following the revolution of 26 September 1962, the country also suffered from civil wars, which made the people's revolution insecure until the late 1960s and early 1970s. Since that time, and particularly during the 1980s, Yemen has been endeavouring, with its meagre resources and the technical and economic assistance of fraternal and friendly States, international organizations and governmental and non-governmental bodies, to overcome its heavy legacy of backwardness by developing its economy through the Three-Year Investment Programme for the period 1973/74-1975/76, which was followed by the implementation of the First Five-Year Plan for the period 1976/77-1980/81, the Second Five-Year Plan for the period 1982-1986 and the current Third Five-Year Plan for the period 1987-1991.

These development and planning efforts have focused on the establishment of infrastructural facilities and the provision of the services needed for economic and social development, thereby increasing production and income to the greatest possible extent. As a result, GDP has grown at rates ranging from 5.6 per cent to 6.6 per cent per annum. However, most of this growth was achieved through spending on services and the development of infrastructural facilities, rather than increases in production, for the commodity production base remained narrow, lacking variety, until the mid-1980s, when investment was channelled into the establishment of an infrastructural and institutional fabric that the backward national economy could depend upon for future development. In order to remedy the situation, the development efforts made in the final years of the Second Five-year Plan and under the Third Five-year Plan have concentrated on increasing GDP through agricultural and industrial production and production services, rather than other government and non-governmental services, which grew at a relatively slower rate. Furthermore, the Government has been pursuing a clearly defined policy of rationalizing imports and public spending, increasing production and fighting inflation in wages and prices through the application of monetary and credit policies designed to reduce the rates of growth in the money supply, control the rise in domestic prices and promote GDP growth, taking advantage of the economic, social and political stability that the country is now enjoying.

Ever since the country began to plan its development in the mid-1970s, it has been committed to economic openness to the outside world, free enterprise, market economics and the promotion of private investment, as well as government investment in the public and mixed-economy sectors. Since domestic savings are not sufficient to finance the investment needed for development, the Government of Yemen has had to resort to foreign loans, aid and assistance. In the 1980s such loans totalled slightly more than \$US 1 billion, and technical assistance and assistance in kind were used to supplement long-term soft loans and support development efforts.

The State is pursuing a wise policy of setting priorities for the use of assistance and loans and has so far had no major difficulty in repaying and servicing its external debt, in spite of the increasing burden of such servicing and repayment in real terms, both as a percentage of total exports of goods and services and as a percentage of the GDP, since the mid-1980s.

The primary objectives of the programmes which the State plans to implement in the 1990s are to develop the commodity production sectors in order to meet growing demand for their products and satisfy the increasing needs of society, and also to provide the population with educational, health, cultural and social services. The State is also focusing on the development of unexploited potential resources, such as oil, natural gas and various minerals, and the development of human resources to meet the need for technical and managerial skills. Efforts are being made to emerge from the stage of negative domestic savings and gradually to reduce the need for foreign aid and assistance in the 1990s with a view to moving on to a stage of self-reliance and achieving a better balance between income generated by domestic commodity production and income generated by the public services needed to raise the standard of living of the population and improve their well-being.

It should be noted that the country experienced two appalling disasters during the 1980s. The first was the devastating earthquake that struck Dahmar and the neighbouring governorates in 1982, in which thousands of citizens were killed or injured, thousands of animals perished and tens of thousands of houses, utilities and service installations were demolished. Although the country received financial and material aid and assistance from many fraternal and friendly States, from governmental and non-governmental organizations and bodies and from specialized international agencies to assist it in reconstruction, which is still under way at present, a substantial portion of the annual cost of reconstruction still has to be covered by the State budget at the expense of appropriations for development programmes.

The second disaster was the severe drought the country experienced to varying degrees between 1982 and 1985, which has adversely affected the implementation of development programmes and the fulfilment of their production targets, especially in the agricultural sector.

II. Economic development during the 1980s

Since the early 1980s, when Yemen embarked upon its Second Five-year Plan for Economic and Social Development, which was then followed by the Third Five-year Plan, scheduled for completion by the end of 1991, a number of measures have been adopted to promote development in all sectors. However, top priority has been accorded to the financing and implementation of projects in the agricultural and industrial sectors, prospecting for oil and the completion of basic service infrastructure, which accounted for the greater part of the country's investment throughout the 1970s and most of the 1980s.

The data show that the average rate of growth in GDP during the 1980s amounted to about 6 per cent. This rate reflects not so much growth in GDP as growth in investment and current expenditure in general.

Since the greater part of investment is made in the service sectors, it does not translate into a significant increase in production with short-term effects on the national economy. In fact, growth rates in the main sectors of the economy differed considerably during the 1980s, as reflected in the following outline.

1. Agriculture, fishing and forestry

GDP growth rates in this sector varied considerably during the 1980s, amounting to an average of 3 per cent per annum in the case of agriculture, although the target growth rates were much higher. In all its plans and programmes since the beginning of the 1970s, the State has endeavoured primarily to promote the vertical expansion of this sector, with very little emphasis on its horizontal development. Most parts of the country suffered from drought, irregular rainfall and agricultural pests for several years during the 1980s. These adverse conditions were largely responsible for the failure to achieve the target growth rates in this sector.

2. Mining and extractive industries

Growth in this sector has been confined to quarrying and the manufacture of red bricks and cement blocks, in other words the extractive industries producing building materials. The mining sector as a whole is still in the stage of surveys, prospecting and studies. The extraction of oil began only in 1986, in very limited quantities, to supply a refinery with a throughput capacity of no more than 10,000 barrels per day, barely enough to cover 30 per cent of the country's consumption of petroleum products. Exports of crude oil began at the end of 1987, although the quantities exported still amount to only 160,000-180,000 barrels per day. In view of the modest quantity of oil produced and exported, its beneficial effect on the life of the country has not been as great as might be imagined, for the following reasons:

- (i) 30 per cent of the crude oil produced is handed over to foreign oil companies in kind to offset their investment in exploration, drilling and the construction of pipelines, refineries, pumping stations, storage facilities and other installations;
- (ii) At least 40 per cent of the remainder is retained by the company in consideration of its share in production;
- (iii) Crude oil production costs are fairly high in comparison with those in the oil exporting countries of the Gulf region;
- (iv) Oil prices have declined significantly in recent years;
- (v) A large portion of the revenues from the export of the State's share of oil is spent on imported petroleum products consumed by the economy of Yemen.

Accordingly, at present the State cannot rely on the net income from these revenues, except to a very limited extent, to finance the imports it needs for development. Yemen will therefore continue to rank as a least developed country, even if its oil production doubles, since approximately 50 per cent of its annual production is handed over in kind to the foreign companies involved in prospecting for and extracting crude oil and natural gas.

3. Manufacturing

This sector, considered fundamental to the country's economy, is receiving close attention from the State and the private sector, although it is still confined to only a limited number of the commodity products needed by the local market. Furthermore, although its contribution to GDP increased from 8.5 per cent at the beginning of the 1980s to 12.9 per cent at the end of the decade, it employed no more than 30 per cent of the workforce, a proportion which has increased to 33 per cent at present. Manufacturing accounts for only a minor proportion of Yemen's total exports specifically 2.3 per cent.

4. Manpower

The human element is central to the economic and social development process, of which it is both the tool and the object. Infact, the human element is the mainstay of the national economy in so far as it is the most effective factor in the furtherance of development. The emigration of manpower to neighbouring, oil-exporting Arab countries is one of the country's primary sources of hard currency. Indeed, the remittances of expatriate workers, particularly those working in the Gulf States, supplement foreign assistance, grants and loans and serve to promote development and finance a significant proportion of the country's essential imports. However, the scale of such remittances declined very sharply during the second half of the 1980s as a result of the drop in demand for Yemeni manpower in the Gulf States and the repatriation of workers.

The State has been attaching increasing importance to the development of human resources through the expansion of general education at all levels and the provision of increased opportunities for technical and vocational training in various skills. About 1.5 million persons benefited from that expansion in 1988. In spite of those endeavours, however, the illiteracy rate is still very high and there is still a great shortage of educational and vocational training facilities in all areas of specialization, since the country began at a low quantitative and qualitative level in that respect in the early 1960s.

About 58.1 per cent of the work force is still employed in agriculture, whereas less than 7.2 per cent is employed in industry, mining and electricity and water works, and about 6.9 per cent in building and construction. The remainder is employed in trade and transport (10.6 per cent) and general services (17.2 per cent).

These sectors achieved significant growth during the 1980s and made a substantial contribution to GDP growth, especially the government services sector. However, the growth in such services has yet to catch up with the ever increasing demand for educational services at all levels, preventive and curative health services and cultural, information, administrative and other services. Indeed, achievements so far still fall short of minimum requirements, hence the need to sustain these efforts during the 1990s with a view to expanding those services, with emphasis on quality as well as quantity.

III. Financial resources for development plans in the 1980s

In view of the shortage of financial resources and the insufficiency of national savings to meet the financial needs of economic and social development projects, the State continued to request assistance and loans from many countries and international organizations and from various financial institutions, although it relied primarily on the remittances of Yemeni expatriates working abroad. During the 1980s, Yemen was granted loans, mostly soft loans, amounting to more than \$US 1 billion, with the following breakdown:

- \$US 313 million without interest;
- \$US 431 million with interest at 0.75-1 per cent;
- \$US 244 million with interest at 2-3 per cent;
- \$US 159 million with interest at 4-5 per cent.

These resources have been distributed among the various development sectors according to their degree of priority.

The technical assistance and aid in kind which Yemen received from many foreign governmental and non-governmental sources amounted to an estimated value of \$US 100 million. This assistance, although limited, is being used to further development plans in various sectors.

Since the beginning of the 1980s, the remittances of Yemeni expatriates have gradually declined, and they have recently reached a disturbingly low level. In fact, a large number of expatriates are now returning home after losing their jobs in the countries where they were working, and this is obviously placing an additional burden on the State.

During the second half of the 1980s, there were a number of trends which had a favourable impact on the development process in the Yemen Arab Republic, including greater interest in the development of agricultural production; the discovery of commercially viable oil and natural gas deposits; the exploitation of oil, extracted for refinement on a small scale and, since December 1987, for export in the form of crude; a relative increase in certain agricultural exports, such as vegetables and fruit, coupled with the prohibition of imports of produce for which local substitutes were available to encourage their domestic production; and, lastly, an increase in certain exports of consumer products made from foodstuffs.

However, there were also many trends with unfavourable consequences for the development process, some of which created difficulties in development funding, such as the sharp decline in remittances from Yemeni expatriates working in the oil-exporting Gulf States, resulting from the increasing scarcity of job opportunities open to Yemeni expatriates in those countries and a reduction in the remittances of those still working there. In fact, many of them are now returning to Yemen, because their jobs are being taken over by labour which the Gulf countries are importing from South-East Asia. Furthermore, the assistance and grants that the Arab Gulf States used to give North Yemen have also begun to decline as a result of the drop in crude oil prices on the world market, coupled with the fact that Yemen has begun to export modest quantities of crude oil itself. The volume of assistance and grants from friendly countries of western Europe has also been affected.

The strain which this problem is placing on the financial resources available for development is reflected in the fact that the decline in remittances from Yemeni expatriates, coupled with the decline in the amount of assistance and grants from fraternal Arab States and friendly foreign countries during the past three years, namely, 1987, 1988 and 1989, was not offset by Yemen's new revenues from the export of the Government's share of crude oil in those years. The World Bank expects this problem to persist during the 1990s, and it cannot be overcome by pumping more oil for export, because of the modest size of proven reserves, which the World Bank reckons will last for 10 to 15 years at current rates of production, i.e. more than 200,000 barrels per day on average.

The GDP of the Yemen Arab Republic is still not enough to cover government consumption requirements, which are increasing yearly as the population grows at an annual rate of 3.1 per cent, nor is it enough to meet the Government's commitment to provide the population with essential services, including basic education, preventive and curative health services and environmental protection and pollution control services, not to mention the need to complete the basic facilities required for development, such as electrification, safe drinking water supplies, sanitation and the educational, rehabilitation and training services needed to develop human resources with a view to increasing production and raising the level of productivity, as the most basic prerequisite for improving the living standards and well-being of the country's population.

The problem of financing development in the Yemen Arab Republic is compounded by the country's external debt burden, which has been increasing year after year, especially since the mid-1980s. Indeed, whereas the cost of servicing the overall foreign debt did not exceed \$US 21 million in 1980, it soared to an annual average of \$US 61 million over the period 1981-1985, and then increased to \$US 102 million in 1986, \$US 145 million in 1987, and \$US 189 million in 1988, reaching \$US 279 million in 1989. Repayment and servicing costs for 1991 are expected to amount some \$US 372.5 million.

Many indicators suggest that the Yemeni economy is still heavily dependent upon foreign loans assistance and grants, in spite of the fact that average GDP per capita among the resident population increased from \$US 594 in 1980 to \$US 644 in 1989.

The balance of payments on current account is continuing to show a deficit, which increased from about \$US 500 million in 1982 to \$US 600 million in 1987 but declined to \$US 387 million in 1989.

As a percentage of exports of goods and services, the foreign debt servicing burden increased from 2.9 per cent in 1983 to 14 per cent in 1986, and 17.3 per cent in 1988, in spite of the fact that the country began exporting crude oil at the end of 1987; furthermore, the State budget deficit, expressed as a percentage of GDP, declined from 23 per cent in 1983 to 16.3 per cent in 1985, 9.9 per cent in 1986 and 9 per cent in 1988, and public revenues from taxes, duties and other sources grew steadily.

GDP continued to be insufficient to cover overall domestic consumption requirements, including both the Government's public consumption and household consumption, especially as the rate of saving out of GDP remained negative throughout the 1980s. Accordingly, the financing of annual investment over

the period 1981-1989 depended on the net remittances of Yemeni expatriates working abroad and foreign assistance, grants and loans, either soft or commercial.

Although the Yemen Arab Republic began to export crude oil in December 1987, in quantities which increased in 1988 and 1989, the value of such exports was not enough to make up for the sharp decline in the remittances of Yemeni expatriates, which dropped from some \$US 745 million in 1982 to \$US 193 million in 1988.

The amount of foreign loans obtained increased from some \$US 263 million in 1982 to \$US 324 million in 1983, but then declined in subsequent years to \$US 115 million in 1987, and \$US 175 million in 1988.

Similarly, the amount of foreign aid received declined from \$US 267 million in 1982 to \$US 141 million in 1983 and continued to decline rapidly thereafter to \$US 44 million in 1987 and \$US 29 million in 1988.

Since 1985, the country has increasingly been relying on short-term foreign loans, the amount of which increased from \$US 11 million in 1985 to \$US 130 million in 1986, \$US 142 million in 1987 and \$US 237 million in 1988.

Official assistance, which amounted to \$US 469 million in 1982, declined rapidly to \$US 143 million in 1984 and \$US 91 million in 1988.

The country's social indicators point to improvements in the 1980s, as compared with the situation prevailing in the 1970s, as shown by the following examples:

(a) The infant mortality rate declined from 171 per 1,000 in 1985 to 136 per 1,000 in 1986;

General life expectancy at birth increased from 39 years in 1975 to 44.5 years in 1986;

(b) The proportion of the workforce employed in industry increased from 3 per cent in 1975 to 3.3 per cent in 1986, and the proportion in non-trade services, from 7.6 per cent in 1975 to 10.3 per cent in 1986;

The proportion of the workforce employed in agriculture declined from 73.6 per cent in 1975 to 68.2 per cent in 1986;

(c) The proportion of housing units supplied with electricity was 43.2 per cent in 1986;

The proportion of housing units supplied with safe drinking water was 25.5 per cent in 1986;

The proportion of housing units equipped with modern sanitation was 14.5 per cent in 1986;

(d) The number of doctors per 1,000 population stood at 1.2 in 1986;

The proportion of the population with at least 10 years' education was 28 per cent in 1986, as against 51 per cent in the other least developed countries and 72 per cent in the developing countries;

In 1986, the illiteracy rate was 72 per cent, as against 49 per cent in the other least developed countries and slightly more than 28 per cent in the developing countries.

	Total number in 1986	Percentage of total
Dwellings	1 409 326	100
With electric light	608 317	43.2
Supplied with water from a public or private source	359 804	25.5

Proportion of urban population: 15.5 per cent

Proportion of rural population: 84.5 per cent

Since the mid-1980s, the Government has introduced many reforms with regard to the official rate of exchange of the rial against the United States dollar. The exchange rate, which was 4.56 rials to the dollar at the beginning of the 1980s, was gradually adjusted to 7.41 rials to the dollar in 1986, 8.99 rials to the dollar in 1987, 9.70 rials to the dollar in 1988, 9.77 rials to the dollar in 1989 and 12 rials to the dollar since the beginning of 1990. It is now hoped that the exchange rate can gradually be floated so as to reflect the strength of local supply and demand.

The Government also endeavoured to increase public income from taxes, duties and other sources throughout the 1980s, in order to keep pace with its increasing current expenditure and investment, while minimizing further borrowing from banks and drawing on external loans and foreign aid to finance investment spending, but limiting its external indebtedness as much as possible. It is hoped that the State budget deficit will continue to narrow and will be cleared within the next few years.

The Government has continued to pursue a policy of rationalizing current expenditure and public investment, by rationalizing government consumption as much as possible and rationalizing imports, while expanding imports of essential commodities, in order to prevent any further increase in the rates of inflation in prices and to minimize the steady rise in the price levels of consumer goods and services essential to the population. It is hoped that the Government's policy will continue to keep inflation under control in order to ensure stable and continuous development.

Many measures have been adopted to encourage private investment in agricultural development, with a view to increasing the production of foodstuffs for domestic consumption and export, and in the development of industrial production, with a view to replacing imports whenever the necessary raw materials and skills are available locally and expanding the production of

building materials in order to support the construction and housing industry, promote the contracting, building and housing sector, and encourage private contractors to develop their operational capability and improve their efficiency.

In recent years, the Government has endeavoured to amend the Law on the Promotion of Arab, Foreign and National Investment with a view to increasing domestic output, stimulating agricultural and industrial exports, narrowing the trade and balance-of-payments deficits, improving investment conditions so as to increase growth rates in the productive sectors, overcoming the relative freeze that has been hampering the development of the commodity sectors and related services, and eliminating the underlying causes of the gap between growth in the output of the productive sectors and growth in that of the public and social services sectors, so as to restore a balance between them in the 1990s.

From the start of the Third Five-year Plan, for the period 1986-1991, Yemen's State policy has been aimed at promoting its self-reliance and reducing its dependence on the outside world by increasing domestic production to replace imports, expanding exports other than crude oil, and providing productive, gainful and full employment for the Yemeni workforce, which is increasing both as a result of population growth and as a result of the repatriation of migrant labour from the Arab Gulf States. Every citizen who is able and willing to work has the right to work. Moreover, productive labour is a means of promoting a fair distribution of the domestic product as between wages and salaries, on the one hand, and returns on the ownership of real estate, land and other assets, on the other.

The crude oil and natural gas sector, which did not contribute to the GDP at all before 1986, accounted for 0.3 per cent of the domestic product in that year. Its contribution to GDP then increased to 0.7 per cent in 1987, some 5.3 per cent in 1988 and 6.2 per cent in 1989. However, its share in the GDP is not expected to increase any further during the first half of the 1990s. On the contrary, the contribution of oil and natural gas production is expected to decline significantly between 1995 and 2000. Accordingly, the State's policy is aimed at maximizing the benefits derived from this sector, first by building up an agricultural and industrial production base and, secondly, by developing human resources through education and training in order to lay the foundations for continuous and steady economic and social development in the 1990s and beyond. Furthermore, the State will be adopting such policies as may be required to maintain a satisfactory balance between the rate of population growth and the rate of economic and social development, while gradually relying less and less on the outside world during the 1990s.

However, if the Yemeni economy is to develop steadily and continuously during this period, it will continue to require substantial foreign assistance in the form of further soft loans and technical, economic and financial assistance, in order to build up its production and export capacity, which, in turn, will enable it to finance part of its productive investment, improve domestic labour productivity and increase the productivity of capital invested in economic and social development, thereby strengthening the country's own capabilities and reducing its relative dependence on the outside world.

IV. Socio-economic development prospects in the 1990s

1. The general objectives which the Yemen Arab Republic is seeking to achieve in the 1990s are, by their very nature, long-term ones covering a period of 15 years at the very least. They relate to the development of the commodity production sectors to meet increasing basic needs in this respect, as well as the discovery of potential and unexploited resources, such as oil, natural gas, various types of minerals and surface- and ground-water resources, with a view to their rational exploitation, and the development of human skills at all levels and in all fields of specialization in order to keep abreast of technological progress and modern methods of production. The objectives also include the need to get beyond the stage of negative domestic savings and enter the stage of positive domestic savings in regard to commodities and services, in such a way as to enable local financing capabilities to contribute effectively to investment, thereby reducing the need for foreign aid and assistance in the financing of investment for the maximum expansion and utilization of production capacities in the 1990s.

2. In the middle of the 1980s, the Government therefore prepared a long-term projection of future development trends in the Yemen Arab Republic, covering the period 1986-2001. This helped to identify the real capabilities as well as available and potential resources. It also helped to determine future development priorities and various socio-economic, sectoral objectives and showed the effect of various policies and measures on the achievement of those objectives.

3. The development strategy underlying the Third Five-year Plan, for the period 1987-1991, is based on the need to increase domestic production and productivity with a view to achieving a satisfactory balance between income generated by commodity production and income generated by expenditure on the service sectors and thereby helping to reduce dependence on the outside world for imports of consumer goods, semi-manufactures and capital goods. Accordingly, the main emphasis in the years ahead will be on the development of the commodity production sectors and the expansion of their capacity.

4. Since the agricultural and fishing sector is still the mainstay of the national economy, in so far as it employs about 58 per cent of the workforce and contributed more than 25.5 per cent of the GDP until the mid-1980s, it will be given priority in development, with a view to increasing production and earnings in its various branches, pursuant to the policy of increasing self-reliance in meeting consumer needs for basic foodstuffs and in order to achieve an increasing degree of food security. In order of importance, this sector is followed by the sector of oil, natural gas and mineral resources and the sector of manufacturing industries, energy, fuel and water resources, together with the construction and building activities connected with them. Sufficient attention must also be devoted to the sector of basic services needed to develop human resources, by developing education in quantitative and qualitative terms, expanding training by every possible means, and providing health services, both curative and preventive, in furtherance of the objective of health for all by the year 2000. Efforts must also be made to achieve a balance between the expansion of services and that of production and the income thus generated in order to raise living standards, combat inflation and curb rising prices.

5. Needless to say, the concern that is being shown for the development of the commodity production sectors is matched by an equivalent degree of concern for the development of human resources through constant improvements in the education, rehabilitation and training system and in preventive and therapeutic health services, cultural services and other services relating to the development of human capabilities and the improvement of the State's administrative organization and efficiency, all of which will require aid and assistance from the outside world.

6. Although the country has made significant progress in the establishment and development of the infrastructure of various sectors and branches of activity, much still needs to be done to ensure the requisite minimum development of the commodity production sectors, to link production areas to consumption areas and to link the country to the outside world, which will require continued endeavours to complete the necessary infrastructure during the next decade.

7. The projections made for the period 1987-2001 are based on the following estimates of the principal variables:

The country's resident population will grow from about 8.1 million in 1986 to about 12.45 million in the year 2001, i.e. an increase of 4.35 million persons at an average annual population growth rate of 3.1 per cent;

The proportion of economically active persons will increase from 21 per cent of the population in 1985 to about 22.4 per cent in the year 2001. As a result, the size of the labour force will increase from 1.7 million to about 2.79 million workers, representing an increase of 1.09 million workers and an average annual growth rate of 3.2 per cent. This will necessitate the provision of an adequate number of productive employment opportunities for these large numbers;

The GDP at production factor cost and constant prices will increase at an average annual rate of 7.8 per cent during the period 1986-2001 (this high rate of growth is attributable to the start of oil production for export at the beginning of the second year in this period), whereas the projections estimate a potential annual growth rate of 6.1 per cent during the 1990s. This high growth target must be met first in order to cope with the foreign debt burden and, secondly, to develop the requisite capacity for savings and investment.

8. Since development potential and the priorities in this regard can be seen more clearly from the development trends and prospects in a time-frame covering more than five years, the aim of the preliminary studies on development trends during the period 1987-2001 is to give an initial outline of development trends and components during that period in the form of three alternative scenarios, the first indicating the minimum acceptable, the second the feasible medium and the third the maximum potential growth.

These scenarios are based on an optimistic evaluation of the size of oil reserves and the benefits that could be derived from exploiting the oil, exporting it and using the proceeds to meet the need for hard currency in financing development. However, actual exploration and oil finds have become less promising than they were in 1985. Furthermore, according to the recent estimates of the World Bank, the productive life of proven oil reserves is expected to run out before the end of the 1990s.
